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ANNUAL
REPORT
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National
Community
Banks,
Inc.



New Jersey's Bank

268814



Financial Highlights

	1988	1989	% of Change 1988-1989
(In thousands of dollars)			
I. EARNINGS			
• Net Income	\$42,015	\$45,005	7%
II. RESOURCES			
• Assets	\$3,614,416	\$4,022,772	11%
• Loans	2,769,017	2,981,465	8%
• Deposits	3,078,797	3,550,851	15%
• Shareholders' Equity	193,702	225,365	16%
• Loan Reserve	29,113	31,683	9%
III. PERFORMANCE			
• Return on Average Assets	1.25%	1.20%	
• Return on Average Equity	23.64%	21.48%	
IV. SHAREHOLDER PERSPECTIVE			
• Net Income Per Share	\$4.05	\$ 4.32	7%
• Dividends Declared	1.21	1.35	12%
• Book Value Per Share	18.61	21.56	16%
V. BANK'S OPERATING FRANCHISE			
• Number of Counties Served	12	12	
• Number of Bank Branches	105	111	



Table of Contents

2-9	President's Message To Shareholders
10	Executive Management
11	Executive Officers of the Holding Company
12-13	Board of Directors
14-16	Officers of National Community Bank
17-20	Regional Directors
21- 56	Financial Statements and Related Information
57-60	Branch Listing

Message to Our Shareholders

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ear Shareholders:



Robert M. Kossick
President and Chief Executive
Officer



Fairleigh S. Dickinson, Jr.
Chairman of the Board

I. Introduction

We are pleased to report that 1989 was another successful year for your Bank with record highs established for both earnings and total asset size or Bank "footings." While 1989 was a difficult year for the banking industry, we are gratified that NCB's earnings increased 7% on a year-to-year basis to \$45 million and the bank gained 11% in total assets to \$4.023 billion, the first time that the \$4 billion plateau has been reached. Also, loans increased 8% to \$2.981 billion, deposits gained a strong 15% to \$3.551 billion, and NCB remained at the highest levels of bank performance with a Return-on-Assets (ROA) of 1.20% and Return-on-Equity (ROE) of 21.48%.

In addition, we emphasize the soundness of your Bank as evidenced by certain key indicators and the composition of the Balance Sheet. Specifically, NCB's net-loan-losses remain at very low levels as compared with the banking industry and our level of capital exceeds all regulatory requirements. Importantly, the Bank's capital consists entirely of primary capital. We have no "good-will" or intangible capital obtained as a result of mergers or acquisitions, and NCB has no subordinated debt serving as capital. NCB has grown its capital through retention of earnings. These aspects of your Bank's capital are fairly unique in today's banking industry.

Over the past years, we achieved the twin objectives of (1) substantially enhancing the Bank's geographical and competitive positioning by adding new strategic branch loca-

tions and (2) improving our profitability via controlled growth in our total bank footings. NCB grew in assets by an average of 27% per year from 1984-1989, and, thus, the Bank more-than-doubled in this period. As a result of the carefully planned and executed new branching or "De-Novo" expansion program started over five years ago and explained in past reports, NCB grew from a \$1.7 billion, 68 branch bank at the end of 1984 to a \$4 billion, 111 branch bank at the end of 1989. We were the 191st largest bank of the nation's more-than 15,000 banks at the end of 1984 and the 115th largest as of June 30, 1989 - a gain of 76 positions.

In the remainder of this Annual Report to Shareholders, management examines the Bank from the viewpoint of its two primary objectives: (1) maintaining a strong, highly profitable bank which allows shareholders to optimize their return-on-investment; and, (2) building one of the nation's "best banks."

II. Shareholders' Viewpoint

From the perspective of NCB shareholders and management, 1989 will be primarily remembered as a perplexing and disappointing year in that the Bank's operating results were not reflected in the price

of its stock which trended downward over the course of the year. Specifically, NCB's offered price was \$35.00 in January, 1989 and \$32.00 at year-end. In retrospect, it seems that in this unusual year the price-per-share of NCB and most bank stocks were adversely affected by a combination of the following negative factors: (1) a poor stock market created by persistent rumors and fears regarding weak corporate earnings, possible recession, and increasing inflation; and (2) anxiety relative to the banking industry's exposure to problem loans, and specific concerns regarding the real estate loan portfolios of banks in the northeast and certain other sectors of the country. It should be noted that there seems to be a tendency on the part of the media to equate New Jersey's real estate conditions with the problem situations encountered in New England and Texas. We, on the other hand, do not believe that New Jersey's real estate picture is comparable to the somewhat depressed conditions existing in other parts of the country due to the wider diversity of New Jersey's economic base. Thus, "quick conclusions" in this regard are neither fair or accurate. Nevertheless, we emphasize that we are dissatisfied with the fact that NCB's non-performing loans, consistent with other

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New Jersey banks, have increased from the level of one year ago. While the great majority of these loans are secured by adequate collateral and guarantees, we do anticipate somewhat increased levels of net loan losses. Over the next several years, however, we emphasize strongly that we fully expect to recover not only the greater portion of principal, but also, the interest due because of our well-secured position in each of the aforementioned loans.

**Table I:
NCB Performance Record**

	Book Value	Earnings Per Share	Dividends Paid	ROA	ROE
1989	\$21.56	\$4.32	\$1.38	1.20%	21.48%
1988	\$18.61	\$4.05	\$1.14	1.25%	23.64%
1987	\$15.76	\$3.34	\$.87	1.24%	22.75%
1986	\$13.38	\$2.66	\$.76	1.22%	21.50%
1985	\$11.45	\$2.16	\$.71	1.22%	20.39%

**Table II:
NCB's Performance Compared With
Primary New Jersey Competitors**

	1985-1989	
	NCB	New Jersey Peer Banking Institutions
• 5 year Average Annual Growth in Book Value	23%	15%
• 5 Year Average Annual Growth in EPS	32%	11%
• 5 Year Average Annual ROA	1.23%	1.08%
• 5 Year Average Annual ROE	21.95%	16.75%
• 5 Year Average Annual Growth in Dividends	23%	18%
• 5 Year Average Net Charge-Offs As a percent of Total Loans	.09%	.30%

Looking beyond the issue of NCB's disappointing stock price in 1989, we suggest that shareholders focus on four vital fundamentals of our banking concern. Specifically, we recognize that shareholders' interests are most accurately and consistently measured by: (1) the Bank's growth rate in book value and earnings-per-share as contrasted with peers; (2) the Bank's Return-on-Assets (ROA) and Return-on-Equity (ROE) as compared with competitors; (3) the Bank's dividend payment record; and (4) the Bank's asset quality record as measured by its loan charge-offs net of recoveries as compared with peer banking institutions. We especially ask shareholders to focus on NCB's excellent growth in book value and earnings-per-share results since these two measures most accurately assess the Bank's ability to convert operating performance into shareholder value. In order to accurately portray the substance of this important information, Tables I and II are provided on this page. The five year average data for 1985-1989 shown in Table II for New Jersey peer banking institutions consists of five of the largest banks in the state.

From this vital data, please note from Table I that earnings-per-share doubled over the past five years, while dividends

paid almost doubled in this same period. We emphasize, also, from Table II that the true value of your investment, as measured by the growth rate in book value and earnings-per-share, has been increasing at a much faster rate than that of in-state competitors. Recognize that only a handful of banks in the country would be able to match these performance statistics.

Understand, also, that book value and earnings-per-share most commonly determine the market share price in a normal stock market environment.

III. Management Perspective

The decade of the 80's presented challenges for banks in the form of product deregulation, interstate banking, and stiffer competition from local banks and other financial entities. Despite this highly competitive banking environment, NCB expanded and thrived as a result of the dedication and quality of a highly motivated staff and a sincere, long-term commitment to a "Community Banking Philosophy." Clearly, having the right people and philosophy have been at the roots of our success for the past 94 years.

As we look to extending this winning approach to the 1990's, we carefully consider

many strategic economic and philosophical issues. After thorough examination of these issues, management charts its future course through implementation of a comprehensive Strategic Operating Plan which sets forth our concepts, goals, and objectives for the years ahead. Throughout the remainder of this message and the enclosed Form 10-K Financial Report, we have summarized the more important elements that are expected to contribute to our future profitability and growth.

A. A Winning Management Team

The paramount reason for your Bank's success is the quality, character, and competence of its people. Put simply, NCB is comprised of 2,200 dedicated individuals, a strong management team, and an aggressive, marketing-oriented management style. This marketing orientation clearly sets your Bank apart from competitors and is a major reason for our success. Under the Bank's established approach to entrepreneurial management, highly motivated managers operate their group, zone, division, region, or department as if it were their "own business." Thus, a competitive environment exists wherein managers develop business plans and strategies

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which help them become more aggressive, creative, and performance-oriented. In turn, compensation is directly correlated with the performance of the Bank and the individual. In order to ensure consistency with overall goals and objectives, executive management closely monitors this overall process.

Additionally, and most importantly, your Bank employs a carefully conceived, strong management structure which ensures that the Bank is well-positioned to meet future objectives. By studying past Annual Reports issued throughout the 1980's, one notes that the NCB senior management team of 1990 consists essentially of the same people that were here in 1980. In short, we are proud of the fact that NCB has successfully avoided the disruptive and widely noted turmoil and turnover experienced by many of our New Jersey counterparts.

Finally, while many of our major competitors have tended to centralize decision-making at higher and seemingly more remote levels in their organization, NCB adopted the opposite approach by decentralizing and downstreaming decision-making to the grass roots of our organization - i.e., the Branches and Regions. Such

decentralization makes it possible to know clients better, be more responsive and flexible, and truly offer full-service private banking to all clients.

B. A STAY-AT-HOME, STAY-IN-BANKING PHILOSOPHY

NCB's ability to successfully combine strong earnings performance and exceptional growth is directly attributed to our emphasis on quality-oriented "local" banking provided by dedicated, capable banking professionals. In this vein, we have continually advertised our "Community Banking" approach consisting of high visibility and involvement in the community, responsiveness and flexibility in our dealings with clients, and extraordinary new business development efforts. By combining this approach with well-designed advertising programs that constantly stress that National Community Bank is the major New Jersey bank operating solely in New Jersey, we have earned the right to claim we are "New Jersey's Bank." With this trust, your Bank has established an exceptional "internal" growth record, i.e., strong growth from within our franchise and without the attendant problems of mergers or acquisitions.

Furthermore, your Bank's performance can be attributed to

the absolute commitment to: (1) remain focused on classical, traditional commercial banking; (2) maximize the generation of non-interest income through fee-based services; (3) implement systems and procedures that effectively control costs while improving service. Throughout the 1980's, many banks eagerly entertained new non-banking services such as discount brokerage, insurance, and joint ventures in real estate. NCB, however, eschewed such endeavors, and, instead, expanded its banking menu via the addition of new products and services designed to meet the diverse banking needs of New Jersey's consumers, businesses, and other entities. In this regard, NCB's International Division, well-recognized for competent service by an increasing roster of clients involved in import and export activities throughout the state, remains an important source of fee-based income. In addition, NCB's Financial Services Division expanded its menu of specialized services. Consequently, the Bank's base of clients and fee-based income grew substantially as a result of our ability to provide Lock-Box, Group Banking Plans, Correspondent Banking, and highly sophisticated Cash Management services to a wide range of corporate, financial, and governmental entities.

C. EXPANDING THE RIGHT WAY

As mentioned previously, your management in 1983 decided to greatly expand NCB's presence throughout the state by establishing a de-novo or new branching program. While our approach of building new branches proved contrary to the methodology of most other banks who chose to expand via acquisition, we are extremely pleased with the success of our program. As you know, we build branches rather than buy banks because we felt that: (1) building avoided costly dilution for shareholders since acquisition premiums were extraordinarily high throughout most of the 1980's; and (2) building allowed us to strategically site our new locations - rather than having to assume the mixture of locations obtained through acquisition of an existing bank. Since 1983, forty-nine branches have been added to our branch system and, at year-end 1989, these new branches generated \$1.082 billion or 30% of NCB's total deposits and \$976 million or 33% of our total loans.

During 1989, attractive new full-service branches opened in Roseland and Verona, Essex County; Florham Park, Morris County; and Kearny and Union City, Hudson County.

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New offices will open in 1990 in Ramsey, Bergen County; Rocky Hill (Montgomery Township), Somerset County; Union, Union County; Bayonne, Hudson County; and Newark in the Port Authority's Newark Legal and Communications Center, Essex County.

Looking ahead, the building of new branches will slow considerably in the future. Simultaneously, the acquisition premiums for certain bank acquisitions have diminished, and, thus, this alternative avenue of growth could prove to be far more attractive and available to us in the 1990's than it was in the 1980's.

D. PROVIDING FOR CONTINGENCIES

As mentioned previously, NCB's ratio of net-loan-losses to total loans remains better than peer group banks. However, given the slower economic conditions of 1989-1990, your Bank believed it would be prudent to increase the Loan Loss Reserve during the fourth quarter of 1989 to keep pace with the aforementioned rise in non-performing loans. In this regard, the Loan Loss Reserve was at 1.06% of total loans outstanding at year-end, and 1989 earnings coverage (Pre-Tax Earnings plus the Loan Loss Provision)

were 19 times actual Net-Loan-Losses.

In addition to the reserve for possible loan losses, the Bank provides for other contingencies that might arise with regard, for example, to taxes, litigation, retirement programs and other matters. Thus, we not only operate the Bank in a conservative manner, but also attempt to ensure that our accounting policies are equally conservative.

IV. SUMMARY

Given the geographical positioning of our 111 branch network, NCB is well-positioned in one of the most densely populated, strongest, and wealthiest states in the nation. In addition to a broad consumer base, New Jersey has a well-diversified business structure, i.e., major corporations, middle market companies, an abundance of companies involved in both import and export activities, and smaller owner-managed businesses. Despite the evidence of some recent slow down in economic activity in the Northeast, we believe our vibrant region will continue to provide excellent opportunities for NCB in the years ahead.

Over the years, we have enjoyed numerous opportunities

to speak with shareholders on many issues. Because we place great value on the relationship between shareholders and management, we encourage you to attend the Annual Meeting of Shareholders, 2:30 p.m. Tuesday the 24th of April at the Sheraton Meadowlands, located off Route 3 in East Rutherford. Following the formal business meeting there will be a social hour with refreshments. We believe this provides an ideal setting in which to meet with members of your management team.

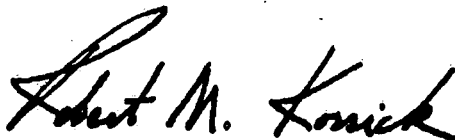
Your Board of Directors and Officers appreciate the outstanding loyalty and support of our shareholders and clients. Furthermore we especially acknowledge the hard work, dedication, and professionalism of the entire NCB staff.

Finally, 1990 will be a challenging year. We look forward to this year and beyond with enthusiasm, optimism, and confidence.

Best regards,



Fairleigh S. Dickinson, Jr.
Chairman of the Board



Robert M. Kossick
President
Chief Executive Officer

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Executive Management



Robert M. Kossick
President and Chief Executive Officer



James Peters
Senior Executive Vice President and
Chief Operating Officer



Kenneth J. Holck
Senior Executive Vice President and
Senior Administrative Officer

EXECUTIVE OFFICERS

of the Holding Company
National Community Banks, Inc.

FAIRLEIGH S. DICKINSON, Jr.
Chairman of the Board

HENRY BECTON
Vice Chairman of the Board

JOHN J. SULLIVAN
Vice Chairman of the Board

ROBERT M. KOSSICK
President and Chief Executive Officer

JAMES PETERS
Senior Executive Vice President and Chief Operating Officer

KENNETH J. HOLCK
Senior Executive Vice President
Senior Administrative Officer

ANTHONY J. FRANCHINA
Executive Vice President, Secretary and Treasurer

BOARD OF DIRECTORS

of the Holding Company
National Community Banks, Inc.

Katharine L. Auchincloss
Ho-Ho-Kus, N.J.

Henry P. Becton
Vice Chairman of the Board
Director Emeritus
Becton, Dickinson & Co.

George S. Callas
President
Allaire Business Development
Corp.
Wall Township, N.J.

Fairleigh S. Dickinson, Jr.
Chairman of the Board

Alvan B. Fehn
Lakehurst, N.J.

Raymond V. Gilmartin
President and C.E.O.
Becton Dickinson & Co.
Franklin Lakes, N.J.

Frank W. Hamilton, Jr.
Formerly
Chairman of the Board
Baylis Industries
Roselle, N.J.

Theodore F. Holbert
Senior Vice President

Kenneth J. Holck
Senior Executive Vice
President and
Senior Administrative Officer

Robert M. Kossick
President and
Chief Executive Officer

John Jay Mangini
Attorney-at-Law
Manasquan, N.J.

Joseph L. Muscarelle, Jr.
President
Jos. L. Muscarelle, Inc.
Maywood, N.J.

James Peters
Senior Executive Vice
President and
Chief Operating Officer

Horace C. Ramsperger
Teaneck, N.J.

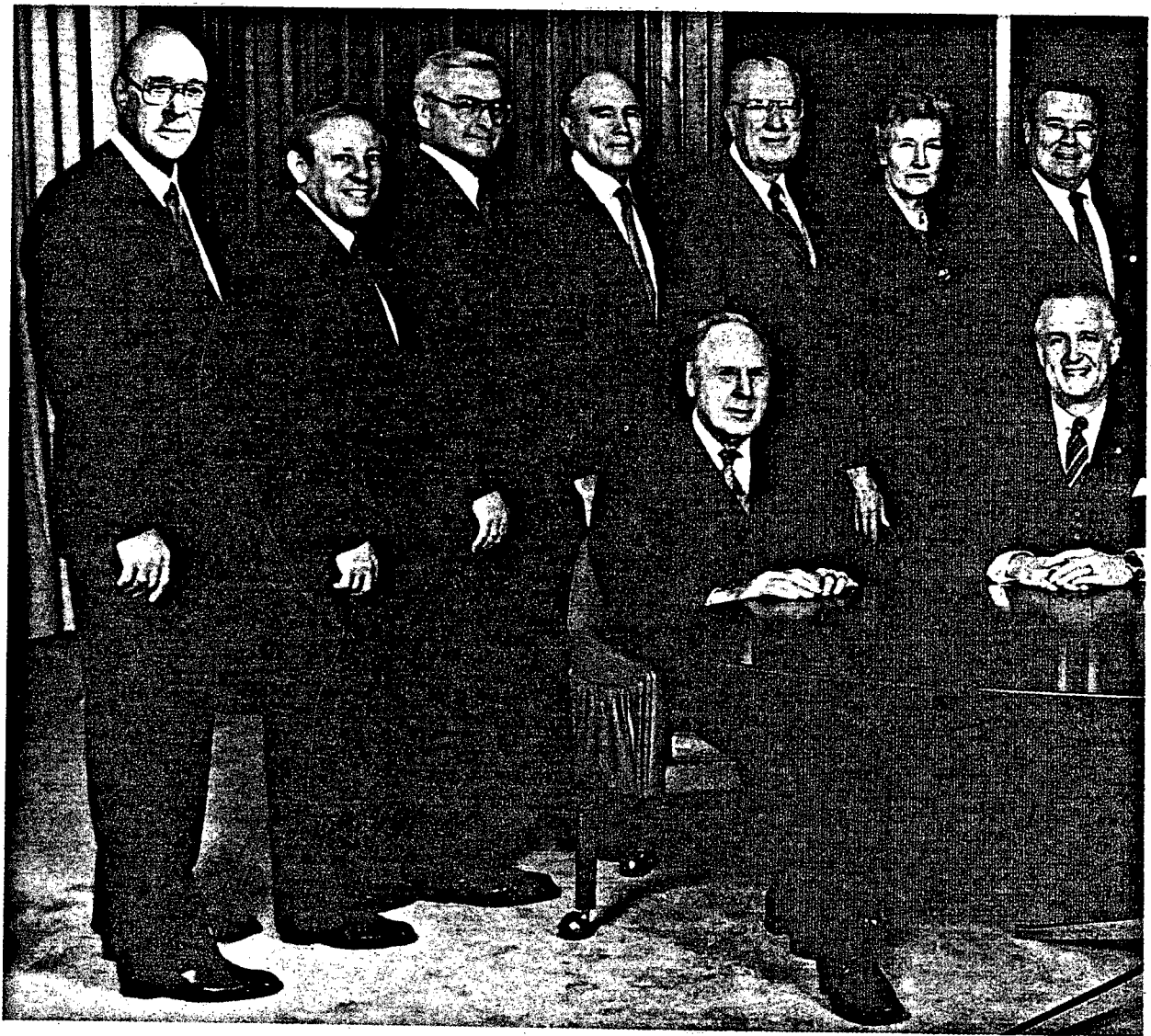
Lambert A. Rose
Wayne, N.J.

Paul Schmidt
President
Romany Corporation
Hackensack, N.J.

Emil W. Solimine
President and
Chief Executive Officer
Emar, Ltd., Inc.
Livingston, N.J.

John J. Sullivan
Vice Chairman of the Board
Attorney-at-Law
Ridgewood, N.J.

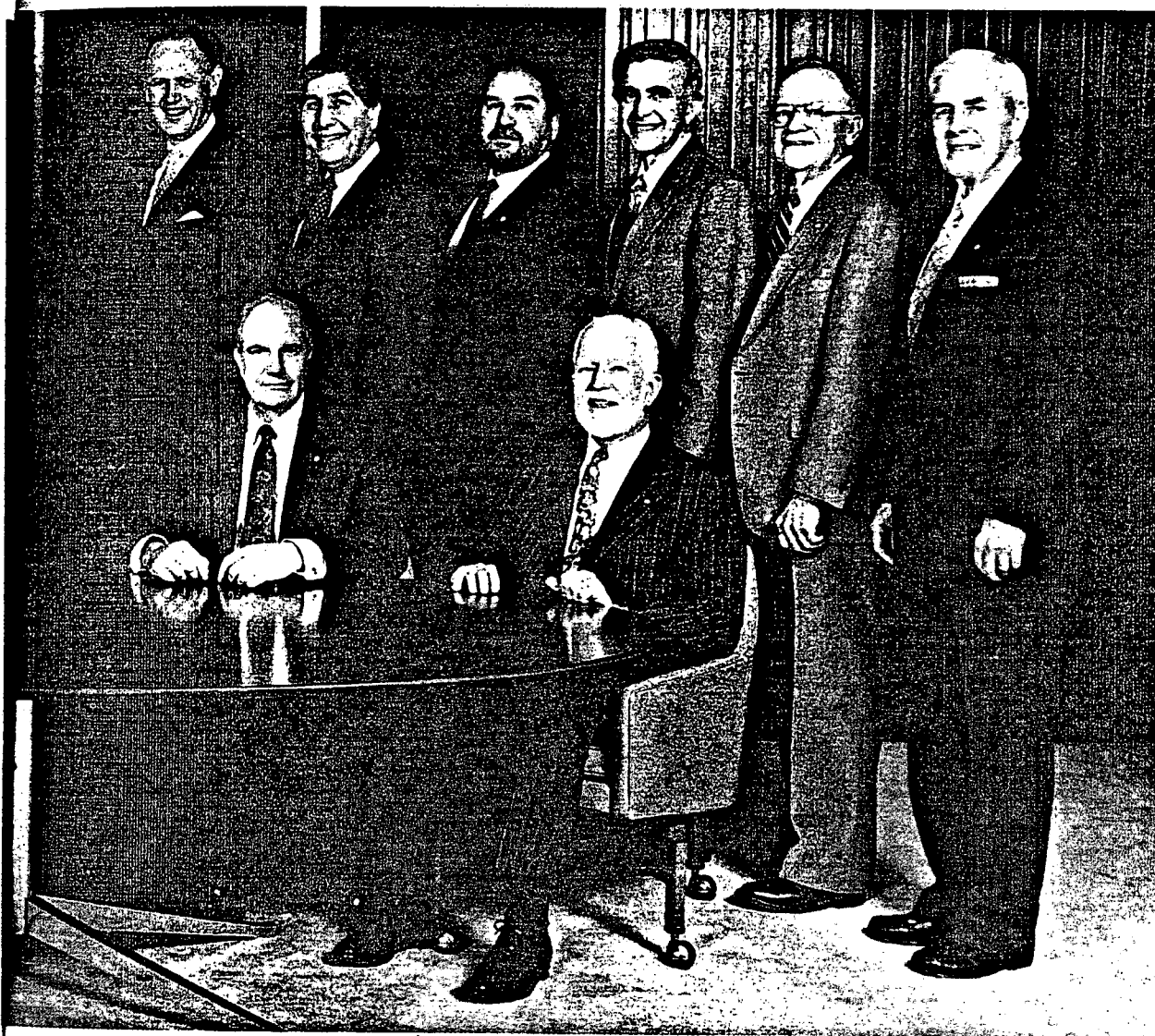
Board of Directors



(left to right): Seated:
John J. Sullivan, Robert M. Kossick,
Fairleigh S. Dickinson, Jr., and Henry P. Becton.



Kenneth J. Holck
Appointed to the Board of Directors
February 28, 1990



Standing:

Theodore F. Holbert, Raymond V. Gilmartin, James Peters, Frank W. Hamilton, Jr.,
Alvan B. Fehn, Katharine L. Auchincloss, John Jay Mangini, Paul Schmidt,
Joseph L. Muscarelle, Jr., Emil W. Solimine, George S. Callas, Lambert A. Rose,
Horace C. Ramsperger.

**ADMINISTRATION/
OPERATIONS GROUP**

OFFICERS of National Community Bank

KENNETH J. HOLCK

Senior Executive Vice President and
Senior Administrative Officer
Administration/Operations Group Manager

Administration

HENRY W. BOHNERT

First Senior Vice President

Robert Andrews

Senior Vice President

Joseph M. Berardo

Senior Vice President
Human Resources

Operations

STEVEN B. EICHHORN

First Senior Vice President

Lester Walsh

Senior Vice President
Operation Services

Lawrence Forrest

Senior Vice President
Information Services

Victor Hermey

Senior Vice President
Loan Operations

BANKING GROUP

JAMES PETERS

Senior Executive Vice President and
Chief Operating Officer
Banking Group Manager

CARL F. CHIRICO

First Senior Vice President
Chief of Staff

Zone Management

PATRICK W. THALLER

Executive Vice President
Zone Manager

Michael J. Ferrara

Senior Vice President
Deputy Zone Manager

LOUIS B. LOMBARDI

First Senior Vice President
Zone Manager

LEIGH B. ROBERTS

Executive Vice President
Zone Manager

Zone I

Bergen, Hudson,
Passaic counties

Zone II

Essex, Morris, Sussex,
Warren counties

Zone III

Atlantic, Mercer,
Middlesex, Monmouth,
Ocean counties

Regional Senior Officers

Region I
(Hudson County)

Jeffrey Buonforte
Senior Vice President

Region II
(Southern Bergen County)

Thomas F. Casey
Senior Vice President

Region III
(Northeast Bergen County)

Richard Cavaliero
Senior Vice President

Region IV
(Northwest Bergen County)

Jeffrey S. McLaren
Senior Vice President

Region V
(Morris & West Essex Counties)

Michael Aiello
First Vice President

Region VI
(Sussex & Warren Counties)

Ronald Dolfi
Senior Vice President

Region VII
(Middlesex County)

Luke R. Caverly
Senior Vice President

Region VIII
(Monmouth & Ocean Counties)

Gregory Faljean
First Vice President

Region IX
(Atlantic County)

Thomas F. X. Cakert
Senior Vice President

Region X
(Mercer County)

Merrill Howe
Vice President

LENDING

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Executive Vice President
Senior Lending Officer

WAYNE COURTRIGHT
First Senior Vice President
Chief of Staff

MICHAEL PAOLERCIO
First Senior Vice President
Senior Commercial Lending Officer

ROBERT WALLACE
First Senior Vice President
Senior Real Estate Lending Officer

Arthur Wages
First Senior Vice President
Corporate Lending

Jack Murphy
Senior Vice President
Asset Based Lending

John Prol
Senior Vice President
Special Assets

Helen Caserta
Senior Vice President
Legal and Recovery

RETAIL/FEE BASED GROUP

JAMES M. DAVIDSON
Executive Vice President
Retail/Fee Based Group Manager

ARTHUR C. RAMIREZ
First Senior Vice President
Retail/Fee Based Group Deputy Manager

Robert J. Abate
Senior Vice President
Retail Lending

Edward M. Katz
Senior Vice President
Trust

Nancy Altbrandt
Senior Vice President
Financial Services

Fred Kowal
Senior Vice President
Correspondent Banking

**BUSINESS DEVELOPMENT
GROUP**

FRANK A. FIGURELLI
First Senior Vice President
Business Development Group Manager

CONTROL GROUP

WALTER R. SCHLICHT
Executive Vice President
Control Group Manager

ELMER E. BUSH, Jr.
First Senior Vice President
Appraisal

Michael Matossian, CPA
First Vice President
Chief Auditor

FINANCIAL GROUP

ANTHONY J. FRANCHINA
Executive Vice President, Comptroller and Cashier
Financial Group Manager

ANTHONY M. PILIPIE, CPA
Senior Vice President
Financial Group Deputy Manager

Diane S. Grenz
First Vice President
Capital Markets

Regional Directors

Region I

JOSEPH A. BALDOMERO, JR.
CPA
Union City, N.J.

EUGENE R. BOFFA
Esquire
Jersey City, N.J.

PAUL V. CAVALLI, M.D.
President
Meadowlands Hospital Medical
Center
Secaucus, N.J.

ROBERT J. FINKLE
CPA
Laventhol and Horvath
Secaucus, N.J.

GENE HELLER
President
Hartz Mountain Industries, Inc.
Secaucus, N.J.

FRANK W. JABLONSKI
Esquire
Gillespie, Gillespie & Jablonski
Kearny, N.J.

JOSEPH MANGINO
President
Metropolitan Trucking
Fairview, N.J.

Region II

BARBARA CHADWICK
Bergen County Freeholder
Rutherford, N.J.

JAMES COHEN
Executive Vice President
Hudson County News Company
North Bergen, N.J.

KATHLEEN DONOVAN
Esquire
Lyndhurst, N.J.

JAMES S. ELY
Esquire
Smith & Ely, P.A.
Rutherford, N.J.

SILVIO FARGNOLI
Livingston, N.J.

STEPHEN D. LESKANIC
President
Pan Graphics, Inc.
Garfield, N.J.

DENNIS A. MAYCHER
Esquire
Maycher & Molinelli
Wallington, N.J.

JOSEPH NEMETH
Consultant
Insulfab Plastics
East Rutherford, N.J.

JOSEPH POJANOWSKI
Esquire
Clifton, N.J.

DOMINIC PRESTO
Esquire
Presto & Barbire
Rutherford, N.J.

W. ROSS REUCASSEL
Chairman
The International Group, Inc.
Lyndhurst, N.J.

Region III

DONALD ARONSON
President
Mejor Consulting Corp.
Englewood, N.J.

SEYMOUR CHASE
Esquire
Chase & Chase
Hackensack, N.J.

JOSEPH FINKEL
President
Home Fuel Oil
Englewood, N.J.

JAMES E. HANSON, II
President
Hampshire Management Co.
Hackensack, N.J.

ALBERT HESS
President
Victor's Three D, Inc.
Maywood, N.J.

MICHAEL LOSURDO
President
Losurdo Foods Corp.
Hackensack, N.J.

JUSTIN D. MILLER
President and Treasurer
Everseal Manufacturing Co., Inc.
Ridgefield, N.J.

STANLEY J. MARCUS
Teaneck, N.J.

ROBERT L. MULLIGAN
Esquire
McCarter, Pisarri, Mulligan et. al
Hackensack, N.J.

JOSEPH L. MURRAY
Esquire
Toomey & Murray
Oradell, N.J.

HAROLD PARNES
President
Haro Management
Hackensack, N.J.

VINCENT SGRO
CPA
Ridgefield, N.J.

FRANK SORRENTINO, III
Englewood Cliffs, N.J.

WILLIAM E. STEFAN
Vice President
Key Handling Systems, Inc.
Hackensack, N.J.

Region IV

STEPHEN BARASCH
Esquire
Englewood Cliffs, N.J.

JOSEPH S. CONTE
Esquire
Paramus, N.J.

ABRAHAM BOSMAN
Investors Business Corp.
Paramus, N.J.

ANN B. DICKINSON
Ridgewood, N.J.

JACOB GOLDMAN
President
Farmland Dairies
Wallington, N.J.

FREDERICK HOFFMAN
Chairman of the Board
Midland Lumber & Supply, Inc.
Midland Park, N.J.

WILLIAM F. JOHNSON, JR.
Esquire
Johnson, Murphy, Hubner &
McKeon
Pompton Lakes, N.J.

MICHAEL LAPLACE
LJ&M Laplace
Elmwood Park, N.J.

E.B. LEONE
President
Glen Rock Lumber
Fair Lawn, N.J.

CARL B. NEVOSO
CPA
Herman, Nevoso and Co., P.A.
Fairfield, N.J.

SALVATORE RIGGI
President
MVIS
Ramsey, N.J.

MYRON P. SHEVELL
President
New England Motor Freight, Inc.
Elizabeth, N.J.

CHARLES P. SHOTMEYER
President
Shotmeyer Bros., Inc.
Hawthorne, N.J.

MARK G. SULLIVAN
Esquire
Sullivan & Sullivan
Ridgewood, N.J.

EDWARD J. TRAWINSKI
Esquire
Schenck, Price, Smith and King
Morristown, N.J.

Region V

DENNIS BALDASSARI
Vice President
Rates & Treas.
Jersey Central Power & Light
Morristown, N.J.

ALVIN M. GARLAND
CPA
Fairfield, N.J.

DANIEL GEBEL
Partner
Carson & Gebel Ribbon Co.
Dover, N.J.

EDWARD JOYCE, JR.
Vice President
Joyce Molding, Inc.
Rockaway, N.J.

ROBERT LANDMESSER
President
Advanced Environmental
Technology Corp.
Flanders, N.J.

ROBERT PETTIT
Oak Ridge, N.J.

DONALD SAVAGE
Manager
USF&G
Livingston, N.J.

LEONARD J. SICHEL
Executive Vice President & Chief
Financial Officer
The Mennen Company
Morristown, N.J.

JAMES YOUNGELSON
Attorney
Morris Plains, N.J.

Region VI

WARREN BALDWIN
President
Sussex County Board of
Agriculture
Director Agway-Sussex Co-op, Inc.
Sussex, N.J.

JOEL KOBERT
Esquire
Kobert, Courter, Pease & Purcell
Hackettstown, N.J.

BRYAN LEWIS
Vice President Service & Finance
M&M Mars
Hackettstown, N.J.

PHILIP PLATANIA
President & CEO
Andmore Sportswear Corp.
Port Jervis, N.Y.

DON RICHARD
West Orange, N.J.

ROY G. ROHEL
President
Tri States Tru Value, Inc.
Sussex, N.J.

ROBERT C. SHELTON
Franklin, N.J.

F. JAY SINGLETON
President
Vicortex, Inc.
Wharton, N.J.

ALBERT P. TRAPASSO
Esquire
Trapasso, Dolan & Hollander
Newton, N.J.

Region VII

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Esquire
Sayreville, N.J.

OMAR BORAIE
President
American Middle-East Marketing
Co.
New Brunswick, N.J.

ROBERT G. GOODMAN
Esquire
Palmisano and Goodman, PA
Woodbridge, N.J.

RICHARD T. GOULD
Holmes Security
Edison, N.J.

FRED KIESER
Esquire
Metuchen, N.J.

EDWARD LUBOWICKI, Sr.
Lubowicki Insurance Agency
Metuchen, N.J.

DIEGO VISCEGLIA
President
Summit Associates, Inc.
Edison, N.J.

Region VIII

JAMES C. DANSKIN
Partner
Danskin Agency
Wall Township, N.J.

JAMES F. DOUGHERTY, M.D.
Sea Girt, N.J.

M. CLAIRE FRENCH
Chairman Monmouth County
Improvement Authority
Neptune, N.J.

BYRON KOTZAS
President
Crossroads Realty
Toms River, N.J.

H. SHERMAN RUSSELL
President
Lakewood Auto Supply, Inc.
Lakewood, N.J.

MICHAEL SCHOTTLAND
Esquire
Freehold, N.J.

WILLIAM C. WINDER
President
Win-Tron Electronics, Inc.
Spring Lake Heights, N.J.

NESTOR WINTERS
Esquire
Bradley Beach, N.J.

Region IX

CARMEN A. BARONE
CPA
Northfield, N.J.

HOWARD L. GREEN
President
South Jersey Radio, Inc.
Linwood, N.J.

GARY R. HAND
Executive Vice President
Linwood Convalescent Center
Linwood, N.J.

RICHARD L. OKONOW
Hotel/Motel Consultant
Real Estate Developer
Atlantic City, N.J.

SAM SCHOFFER
Real Estate Developer
Pleasantville, N.J.

R.C. WESTMORELAND
Esquire
McAllister and Westmoreland
Northfield, N.J.

Region X

MICHAEL T. HARTSOUGH
Esquire
Princeton, N.J.

JOSEPH R. RIDOLFI
Senior Executive
N.J. Dept. of Commerce
Trenton, N.J.

ALLEN M. SILK
Esquire
Stark and Stark
Trenton, N.J.

DONALD J. LOFF
Senior V.P. Investments
Prudential-Bache Securities
Princeton, N.J.

**Index To
Financial Statements
and Related Information**

Financial Statements

22	Consolidated Statements of Condition
23	Consolidated Statements of Income
24	Consolidated Statements of Changes in Shareholders' Equity
25	Consolidated Statements of Cash Flows
26-33	Notes to Consolidated Financial Statements
34	Report of Independent Public Accountants
35	Summary of Selected Financial Data
35	Market Prices and Dividend Data
36-46	Management's Discussion and Analysis
47-49	Selected Statistical Information
50-56	Other Data

National Community Banks, Inc.
Consolidated Statements of Condition
December 31, 1989 and 1988

Assets

	1989	1988
Cash and Due from Banks (Notes 1 and 2)	\$ 409,841,027	\$ 348,764,753
Interest Bearing Deposits with Banks (Note 2)	4,000,000	4,330,000
Federal Funds Sold and Securities Purchased under Agreements to Resell (Note 1) ...	55,000,000	570,000
Investment Securities (Notes 1 and 3):		
U.S. Treasury Securities	69,380,730	84,820,334
Obligations of U.S. Government Agencies	174,945,863	146,754,007
Obligations of States and Political Subdivisions	183,505,630	134,526,873
Other Securities (Primarily Corporate Taxable Bonds)	20,856,796	34,632,736
Total Investment Securities (Market value of \$448,507,010 in 1989 and \$395,779,325 in 1988)	448,689,019	400,733,750
Loans (Notes 1, 4 and 5)	2,981,465,455	2,769,017,550
Less: Unearned Income	(15,429,421)	(11,992,308)
Allowance For Possible Loan Losses	(31,682,733)	(29,112,524)
Net Loans	2,934,353,301	2,727,912,718
Bank Premises and Equipment—Net (Notes 1 and 6)	91,056,919	83,208,889
Accrued Interest Receivable	36,296,258	33,850,672
Other Assets	43,535,028	15,044,793
Total Assets	<u>\$4,022,771,552</u>	<u>\$3,614,415,575</u>

Liabilities and Shareholders' Equity

Demand Deposits — Non-Interest Bearing	\$1,024,094,760	\$ 924,575,867
Savings Deposits — Interest Bearing	1,428,316,038	1,351,830,414
Time Deposits — Interest Bearing (Including Deposits \$100,000 and Over of \$484,168,339 in 1989 and \$390,565,563 in 1988)	1,098,439,855	802,390,455
Total Deposits	3,550,850,653	3,078,796,736
Short Term Borrowings (Note 7)	183,111,311	277,639,660
Accrued Interest and Other Liabilities	63,444,280	64,277,003
Total Liabilities	3,797,406,254	3,420,713,399
Commitments and Contingencies (Note 10)		
Preferred Stock (Par Value \$2.00) Authorized 10,000,000 Shares, No Shares Issued	—	—
Common Stock (Par Value \$2.00) (Notes 1 and 11) Authorized 50,000,000 Shares, Issued 10,451,560 Shares in 1989 and 10,409,088 Shares in 1988	20,903,120	20,818,176
Capital Surplus	20,011,582	19,356,452
Retained Earnings (Note 12)	184,450,596	153,527,548
Total Shareholders' Equity	225,365,298	193,702,176
Total Liabilities and Shareholders' Equity	<u>\$4,022,771,552</u>	<u>\$3,614,415,575</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

National Community Banks, Inc.
Consolidated Statements of Income
Years Ended December 31, 1989, 1988 and 1987

	1989	1988	1987
Interest Income (Note 1)			
Interest and Fees on Loans:			
Taxable	\$306,052,758	\$251,423,713	\$184,172,952
Exempt from Federal Income Tax	12,410,856	12,527,526	12,639,265
Interest on Deposits with Banks	424,581	262,712	477,096
Interest on Investment Securities:			
Taxable	23,199,323	22,068,398	21,514,996
Exempt from Federal Income Tax	9,237,904	7,171,981	7,180,566
Interest on Federal Funds Sold and Securities Purchased under Agreements To Resell	1,857,162	1,433,481	1,872,547
Total Interest Income	353,182,584	294,887,791	227,857,422
Interest Expense			
Interest on Deposits	164,934,360	130,353,578	95,617,793
Interest on Short Term Borrowings (Note 7)	22,743,235	14,012,530	10,079,744
Total Interest Expense	187,677,595	144,366,108	105,697,537
Net Interest Income	165,504,989	150,521,683	122,159,885
Provision for Possible Loan Losses (Note 5)	6,300,000	8,325,000	7,600,000
Net Interest Income After Provision for Possible Loan Losses	159,204,989	142,196,683	114,559,885
Other Income			
Trust Income	3,000,000	2,300,000	2,210,000
Service Charges on Deposit Accounts	17,048,742	14,748,415	11,591,354
International Fees and Commissions	4,565,844	4,073,368	3,078,428
Other	7,831,407	5,047,234	3,802,983
Total Other Income	32,445,993	26,169,017	20,682,765
Other Expenses			
Salaries and Employee Benefits (Notes 9 and 11)	72,007,829	58,537,234	48,279,197
Net Occupancy Expense (Note 10)	14,104,543	11,626,108	8,631,980
Equipment Expense	9,702,083	8,203,960	6,723,841
Other	32,841,380	30,415,418	24,471,827
Total Other Expenses	128,655,835	108,782,720	88,106,845
Income Before Income Tax Provision	62,995,147	59,582,980	47,136,005
Income Tax Provision (Note 8)	17,990,100	17,568,200	12,602,400
Net Income	\$ 45,005,047	\$ 42,014,780	\$ 34,533,605
Weighted Average Common Shares Outstanding	10,426,768	10,375,052	10,351,544
Net Income per Common Share (Note 1)	\$4.32	\$4.05	\$3.34

The accompanying notes to the consolidated financial statements are an integral part of these statements.

National Community Banks, Inc.
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 1989, 1988 and 1987

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Balance, January 1, 1987	\$ 20,658,232	\$ 18,125,158	\$ 99,458,958	\$ 138,242,348
Net Income—1987	—	—	34,533,605	34,533,605
Effect of Incentive Plans	68,512	562,652	—	631,164
Cash Dividend: \$.96 per share	—	—	(9,914,277)	(9,914,277)
Balance, December 31, 1987	20,746,744	18,687,810	124,078,286	163,512,840
Net Income—1988	—	—	42,014,780	42,014,780
Effect of Incentive Plans	71,432	668,642	—	740,074
Cash Dividend: \$1.21 per share	—	—	(12,565,518)	(12,565,518)
Balance, December 31, 1988	20,818,176	19,356,452	153,527,548	193,702,176
Net Income—1989	—	—	45,005,047	45,005,047
Effect of Incentive Plans	84,944	655,130	—	740,074
Cash Dividend: \$1.35 per share	—	—	(14,081,999)	(14,081,999)
Balance, December 31, 1989	<u>\$20,903,120</u>	<u>\$20,011,582</u>	<u>\$184,450,596</u>	<u>\$225,365,298</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

National Community Banks, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 1989, 1988 and 1987 (Note 1)

	1989	1988	1987
Cash Flows From Operating Activities:			
NET INCOME	\$ 45,005,047	\$ 42,014,780	\$ 34,533,605
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities—			
Depreciation of Bank Premises and Equipment	8,142,944	6,409,285	4,946,570
Amortization of Premiums, Net of Accretion on Investment Securities	536,007	1,107,123	868,833
Amortization of Stock Grant Awards	734,424	734,424	644,751
Provision for Possible Loan Losses	6,300,000	8,325,000	7,600,000
Deferred Federal Income Tax Benefit	(2,126,066)	(2,598,400)	(5,187,100)
Realization of (Premiums) Discount, on Investment Securities, Net	(892,584)	(919,192)	826,850
Gain on Sale of Investment Securities	(28,854)	(19,221)	(11,200)
Gain on Sale of Loans	—	(351,704)	—
Increase in Accrued Interest Receivable	(2,445,586)	(9,519,604)	(2,020,462)
(Increase) Decrease in Other Assets	(26,364,169)	25,952,968	(8,406,143)
Increase (Decrease) in Accrued Interest and Other Liabilities ...	(535,305)	4,901,029	10,600,456
Total Adjustments	(16,679,189)	34,021,688	9,862,355
Net Cash Provided by Operating Activities	28,325,858	76,036,468	44,395,960
Cash Flows From Investing Activities:			
Proceeds from Sales and Maturities of Investment Securities ...	193,991,317	127,245,013	138,598,716
Purchase of Investment Securities	(193,852,035)	(138,277,758)	(150,061,503)
Proceeds from Loan Sales and Participations Sold	16,231,605	102,168,000	39,518,685
Net Increase in Loans	(276,681,308)	(538,251,203)	(585,917,852)
Purchase of Bank Premises and Equipment	(15,990,974)	(21,376,168)	(18,808,207)
Net Cash Used in Investing Activities	(276,301,395)	(468,492,116)	(576,670,161)
Cash Flows From Financing Activities:			
Net Increase in Deposit Accounts	472,053,917	387,423,666	255,565,849
Net (Increase) Decrease in Interest Bearing Deposits with Banks	330,000	(2,424,000)	47,142,861
Net Increase (Decrease) in Short Term Borrowings	(94,528,349)	38,111,323	112,351,224
Dividends Paid	(14,379,407)	(11,825,808)	(9,021,503)
Proceeds from Issuance of Common Stock	5,650	5,650	6,413
Net Cash Provided from Financing Activities	363,481,811	411,290,831	406,044,844
Net Increase (Decrease) in Cash and Cash Equivalents	115,506,274	18,835,183	(126,229,357)
Cash and Cash Equivalents at Beginning of Year	349,334,753	330,499,570	456,728,927
Cash and Cash Equivalents at End of Year	\$ 464,841,027	\$ 349,334,753	\$ 330,499,570
Supplemental Disclosures of Cash Flow Information:			
Cash Paid During the Year for:			
Interest	\$ 181,145,000	\$ 140,405,000	\$ 104,730,000
Income taxes	21,695,000	18,138,000	17,768,000

The accompanying notes to the consolidated financial statements are an integral part of these statements.

National Community Banks, Inc.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

The more significant accounting policies not described elsewhere in these Notes to Consolidated Financial Statements are summarized as follows:

Basis of Presentation:

The consolidated financial statements include the accounts of National Community Banks, Inc. (the Company) and its wholly-owned subsidiary (the Bank). All significant intercompany balances and transactions have been eliminated.

Investment Securities:

Investment securities are generally intended to be held to maturity and are stated at cost, adjusted for amortization of premiums and accretion of discounts on the straight-line method over the life of the security. Gains and losses on sales of investment securities are computed on the specific identification method and are included in other income as they are immaterial in 1989, 1988 and 1987.

Loans:

Interest is accrued on loans primarily based upon the principal amount outstanding over the terms of the respective loan instruments. Unearned income on certain installment loans is credited to operating income on an accelerated method over the term of the respective loan instruments. The Company does not accrue interest on any loan when factors indicate collectibility is doubtful.

Loan origination and commitment fees and certain costs are being deferred and are included in unearned income. The net amount of fees and costs is being amortized as an adjustment of the yield, generally over the contractual life of the related loans. However, for mortgage loans generally made for a 15 year term, the Company has anticipated prepayments and used an estimated life of seven years.

Bank Premises and Equipment:

Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided using the straight line method. Improvements are capitalized and maintenance and repairs are charged to expense. Rates of depreciation are based on the following estimated lives: Buildings and Leasehold Improvements 20 to 40 years; Equipment, Furniture and Fixtures 3 to 10 years.

Allowance for Possible Loan Losses:

The Company maintains the Allowance for Possible Loan Losses at a level considered adequate to provide for possible loan losses. The level of the allowance is based on a credit review of the loan portfolio designed to identify potential charges to the allowance, past loan loss experience, consideration of prevailing and anticipated economic conditions and other factors which in management's judgment will provide for an adequate allowance. The allowance is increased by provisions charged to operating expense and loan recoveries, and reduced by loans charged off.

Federal Income Taxes:

The Company recognizes certain items of income and expense, primarily the accretion of discount on investment securities, provision for possible loan losses, loan fee income and accelerated depreciation on bank premises and equipment, in different periods for financial statement purposes than for tax purposes. Provisions for deferred income taxes are made currently in recognition of these timing differences.

In December 1987, the Financial Accounting Standards Board issued a new standard on accounting for income taxes. The new standard must be adopted no later than January 1, 1992, and requires comprehensive tax allocation using the liability method of accounting. Under this method, deferred income taxes are provided on temporary differences based upon the expected tax rates in the year in which payment of taxes are anticipated. Subsequent changes in income tax rates would require adjustment of the deferred income tax liability or asset to reflect the new tax rates.

Adoption of this new standard can be effected by either retroactively restating prior years or recording the cumulative adjustment through income in the year the standard is adopted. The Company has not yet determined when or how it will adopt the new standard, or the affect of such adoption on the financial statements.

Trust Assets and Income:

Property held in fiduciary or agency capacities for the Company's customers is not included in the Statement of Condition since such items are not assets of the Company. Trust income is reported on the accrual basis.

Net Income Per Common Share:

Net income per common share is based on the weighted average number of shares of common stock outstanding during the respective years. The effect of stock grants and options is immaterial.

Statement of Cash Flows:

During 1988, the Company adopted Statement of Financial Accounting Standard No. 95 "Statement of Cash Flows." In 1989, the Company restated the December 31, 1987 Statement of Changes in Financial Position to conform with this new accounting standard.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, non-interest bearing amounts due from banks, Federal funds sold and securities purchased under agreements to resell. Generally, Federal funds sold are for a one-day period and repurchase agreements mature within 30 days.

Note 1. Summary of Significant Accounting Policies (continued)**Reclassifications:**

Certain amounts in the 1988 and 1987 financial statements have been reclassified to conform to the classifications used in the 1989 presentation.

Note 2. Cash, Due from Banks and Interest Bearing Deposits with Banks

Cash balances reserved to meet regulatory requirements of the Federal Reserve Bank and balances maintained at other banks for compensating balance requirements amounted to \$75,979,000 and \$62,315,000 at December 31, 1989 and 1988, respectively.

Note 3. Investment Securities

A summary of market values of Investment Securities is as follows:

	December 31,	
	1989	1988
U.S. Treasury Securities	\$ 69,521,586	\$ 83,691,049
Obligations of U.S. Government Agencies	175,065,542	144,871,691
Obligations of States and Political Subdivisions	183,165,262	132,700,589
Other Securities (Primarily Corporate Taxable Bonds)	20,754,820	34,515,996
	<u>\$448,507,010</u>	<u>\$395,779,325</u>

The par value of securities pledged to secure public funds, trust funds, repurchase agreements and for other purposes required by law was \$140,637,000 on December 31, 1989 and \$125,390,000 on December 31, 1988.

Note 4. Loans

A summary of Loans is as follows:

	December 31,	
	1989	1988
Loans Secured by Real Estate:		
Residential	\$ 979,990,276	\$ 910,164,546
Construction	285,755,071	273,529,182
Commercial	805,810,208	759,872,756
Commercial and Industrial Loans	580,000,428	510,258,750
Loans to Individuals for Household, Family, and Other Personal Expenditures	182,417,426	154,831,920
Obligations of States and Political Subdivisions in the U.S.	133,723,602	142,522,004
Other Loans	13,768,444	17,838,392
Total Loans, Gross	<u>\$2,981,465,455</u>	<u>\$2,769,017,550</u>

Non-Performing Loans:

Non-performing loans include non-accrual loans, renegotiated loans, and accruing loans which are 90 days or more delinquent. Non-accrual loans include loans for which accrual of interest income has been discontinued. Renegotiated loans are loans for which the terms have been modified to provide a reduction or deferral of interest or principal due to a decline in the financial position of the borrower.

The principal amounts of non-performing loans were \$74,673,000 and \$33,795,000 at December 31, 1989 and 1988, respectively which includes \$48,380,000 and \$11,774,000 of non-accrued loans respectively. If interest had been accrued on the non-accrual loans, the after tax effect on net income would have been an increase of \$3,220,000 and \$407,000 in 1989 and 1988, respectively.

Loans to Related Parties:

Loans to related parties have been granted under terms and conditions in accordance with the Company's normal lending policies. These loans include loans made to directors, executive officers and their associates, as defined. Amounts outstanding on loans to related parties at December 31, 1989 and 1988 are immaterial.

Note 5. Allowance for Possible Loan Losses

The Allowance for Possible Loan Losses is based on estimates, and the ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reflected in operations in the periods in which they become known. An analysis of the Allowance for Possible Loan Losses is as follows:

	December 31,		
	1989	1988	1987
Balance, Beginning of Year			
Recoveries	\$29,112,524	\$23,610,080	\$17,873,926
Provision	1,054,744	1,255,429	1,113,281
Loan Charge-Offs	6,300,000	8,325,000	7,600,000
	(4,784,535)	(4,077,965)	(2,977,147)
Balance, End of Year	<u>\$31,682,733</u>	<u>\$29,112,524</u>	<u>\$23,610,080</u>

The allowance for possible loan losses for Federal income tax purposes was \$5,028,000, \$6,351,000, and \$7,655,000 at December 31, 1989, 1988, and 1987, respectively.

Note 6. Bank Premises and Equipment

A summary of the major classes of Bank Premises and Equipment is as follows:

	December 31,	
	1989	1988
Land	\$ 11,089,471	\$ 10,469,471
Bank Buildings	47,915,182	42,644,290
Equipment, Furniture and Fixtures	52,993,442	43,699,063
Capitalized Leases and Improvements	21,446,663	21,002,089
	133,444,758	117,814,913
Less: Accumulated Depreciation and Amortization	42,387,839	34,606,024
	<u>\$ 91,056,919</u>	<u>\$ 83,208,889</u>

Note 7. Short Term Borrowings

These borrowings consist of:

	December 31,	
	1989	1988
Federal Funds Purchased	\$ 83,726,000	\$189,409,000
Securities Sold under Agreements to Repurchase	99,322,076	87,685,017
Liabilities for Other Borrowed Money	63,235	545,643
Total	<u>\$183,111,311</u>	<u>\$277,639,660</u>

Most Federal funds purchased mature in one day and the majority of securities sold under agreements to repurchase mature within 30 days.

Details with respect to the Federal funds purchased and securities sold under agreements to repurchase are as follows:

	December 31,	
	1989	1988
Federal Funds Purchased:		
Maximum Amount Outstanding at any Month End	\$271,397,000	\$189,409,000
Weighted Average Rate at Year End	8.00%	8.31%
Average Amount Outstanding during Year	\$149,404,997	\$ 99,625,271
Weighted Average Rate during Year	9.37%	7.87%
Securities Sold under Agreements to Repurchase:		
Maximum Amount Outstanding at any Month End	\$109,061,636	\$108,030,927
Weighted Average Rate at Year End	7.97%	8.02%
Average Amount Outstanding during Year	\$ 99,631,961	\$ 84,417,579
Weighted Average Rate during Year	8.58%	7.04%

The average amounts outstanding are primarily daily averages, and the average interest rates for the year are computed by dividing the respective interest expense by the average balances outstanding.

Note 8. Income Taxes

The components of the income tax provision are presented below:

	December 31,		
	1989	1988	1987
Federal Income Taxes—Current	\$15,410,466	\$15,834,900	\$15,554,000
—Deferred	(2,126,066)	(2,598,400)	(5,187,100)
State Income Taxes	4,705,700	4,331,700	2,235,500
Total Provision	<u>\$17,990,100</u>	<u>\$17,568,200</u>	<u>\$12,602,400</u>

The deferred Federal income tax benefit results primarily from differences between financial reporting and tax accounting for the provision for possible loan losses net of other differences which include recognition of discount accretion income on investment securities, depreciation of bank premises and equipment and recognition of loan fee income.

The reconciliation between the statutory Federal income tax rate and the effective rate based on income before income tax provision is as follows:

	1989	% Pre-Tax Income	1988	% Pre-Tax Income	1987	% Pre-Tax Income
Federal Income Tax at Statutory Rate ..	\$21,418,350	34.0%	\$20,258,213	34.0%	\$18,854,402	40.0%
Tax Exempt Income from Loans and Investments	(6,532,821)	(10.4)	(6,116,153)	(10.3)	(7,228,875)	(15.3)
State Income Taxes, Net of Federal Income Tax Benefit	3,105,762	4.9	2,858,922	4.8	1,341,300	2.8
Other	(1,191)	—	567,218	1.0	(364,427)	(.8)
Total Income Tax Provision	<u>\$17,990,100</u>	<u>28.5%</u>	<u>\$17,568,200</u>	<u>29.5%</u>	<u>\$12,602,400</u>	<u>26.7%</u>

Note 9. Benefit Plans

The Bank has a retirement plan covering substantially all of its employees. Under the plan, eligible employees receive benefit payments upon retirement, the amounts of which are determined by the employee's earnings and years of service. The Bank's funding policy is to contribute annually an amount ranging between the minimum and the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only benefits attributed to service to date but also for those expected to be earned in the future. Costs of the Bank's retirement plan are accounted for in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting For Pensions."

Total pension expense for 1989, 1988 and 1987 was approximately \$1,409,000, \$1,251,000 and \$1,144,000, respectively.

The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated financial statements at December 31, 1989 and 1988.

Actuarial present value of benefit obligations:

Accumulated benefit obligation, including vested benefits of \$20,227,000 in 1989 and \$17,219,000 in 1988

	1989	1988
Accumulated benefit obligation, including vested benefits of \$20,227,000 in 1989 and \$17,219,000 in 1988	\$ 20,503,030	\$ 17,590,411
Projected benefit obligation for service rendered to date	\$ 25,594,075	\$ 25,532,515
Plan assets at fair value	25,582,139	23,281,326
Projected benefit obligation in excess of plan assets	11,936	2,251,189
Unrecognized net gain (loss) from past experience different from that assumed and effects of changes in assumptions	1,174,247	(1,434,769)
Unrecognized net obligation at January 1, 1988 being recognized over 25 years	(498,353)	(521,005)
Accrued pension liability included in other liabilities	<u>\$ 687,830</u>	<u>\$ 295,415</u>

Note 9. Benefit Plans (continued)

Net pension cost for 1989 and 1988 included the following components:

	1989	1988
Service cost—benefits earned during the year.....	\$ 1,315,970	\$ 1,205,912
Interest cost on projected benefit obligation.....	2,282,121	1,852,514
Return on plan assets.....	(2,211,726)	(1,830,187)
Net amortization and deferral.....	22,652	22,652
Net periodic pension cost.....	<u>\$ 1,409,017</u>	<u>\$ 1,250,891</u>

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8.5 percent and 5 percent, respectively. The expected long-term rate of return on assets was 9.5 percent.

The Bank has an Employee's Incentive Saving's Plan (the Plan) whereby eligible participating employees may elect to contribute between 1% and 15% of their salaries to the Plan. These contributions are not subject to current Federal income taxes. In addition, the Bank will contribute up to 75% of an employee's contribution up to a maximum of 5% of his salary. The aggregate benefit payable to any employee is dependent upon the rate of contribution, the earnings of the Plan assets and the length of time such employee continues as a participant. The Bank's contribution for the years ended December 31, 1989, 1988 and 1987 was approximately \$774,000, \$647,000 and \$552,000, respectively.

The Bank also provides medical, dental and life insurance benefits for its retirees. The benefits are funded through current operations. The amounts charged to operations in 1989, 1988 and 1987 were approximately \$125,000 in each year.

Note 10. Commitments and Contingencies

In the normal course of business the Company and the Bank make various commitments and incur certain contingent liabilities which are not reflected in the accompanying financial statements. These commitments and contingent liabilities include various guarantees, commitments to extend credit and standby letters of credit. Commitments under standby letters of credit aggregated \$92,547,000 at December 31, 1989 and \$106,512,000 at December 31, 1988. No losses are anticipated as a result of these transactions.

The Company, in the conduct of its business, is involved in normal litigation matters. In the opinion of management, the ultimate disposition of such litigation should not have a material adverse effect on the consolidated financial position of the Company.

The Bank leases certain property under noncancelable operating leases. The minimum annual rentals under these leases are summarized as follows:

1990.....	\$ 5,198,817
1991.....	4,866,670
1992.....	4,028,124
1993.....	3,586,654
1994.....	3,577,705
1995-1999.....	15,861,260
2000-2004.....	10,247,833
Subsequent Years.....	7,991,340
	<u>\$55,356,403</u>

Total rental expense amounted to \$4,549,000, \$3,842,000 and \$2,539,000 in 1989, 1988 and 1987, respectively. It is anticipated that rental payments will exceed the minimum rental commitments shown above.

Note 11. Long Term Incentive Plans

The Long Term Stock Incentive Plan (the Plan) provides for awarding stock options and stock grants to selected key employees. The Plan authorizes grants of options to purchase up to 520,000 shares of the Company's common stock. The options awarded pursuant to the Plan are intended to be either Incentive Stock Options or Non-Qualified Stock Options. Options expire not more than ten years after the date of grant.

The following is a summary of changes in Incentive Stock Options and Non-Qualified Stock Options outstanding (excluding performance-based options described below):

	Years Ended December 31,					
	1989		1988		1987	
	Shares	Option Price	Shares	Option Price	Shares	Option Price
Options outstanding, January 1	8,800	\$10.69	8,800	\$10.69	9,400	\$10.69
	121,800	\$28.25	122,000	\$28.25	122,000	\$28.25
Exercised	200	\$28.25	200	\$28.25	600	\$10.69
Options outstanding, December 31	8,800	\$10.69	8,800	\$10.69	8,800	\$10.69
	121,600	\$28.25	121,800	\$28.25	122,000	\$28.25

During 1989, the Company granted performance-based non-qualified stock options to certain key employees. The maximum number of shares of common stock issuable upon exercise of such performance-based options is 140,500 shares. In general, approximately one-half of such performance-based options are exercisable for a two-year period commencing on December 31, 1990 and the balance are exercisable for a two-year period commencing on December 31, 1991. Options unexercised at the end of such two-year periods will lapse. The precise number of shares issuable upon the exercise of the performance-based options is generally contingent upon the Company's achieving certain pre-defined performance criteria during the three year period before such options first become exercisable (the vesting period). The exercise price of such options is the lower of (a) the fair market value of the common stock on the first day of such period or (b) the book value of the common stock on the date such options first become exercisable. The difference between the estimated fair market value of the common stock on the date such options first become exercisable and the estimated exercise price is charged to operations over the vesting period.

The Plan also authorizes the awarding of stock grants for up to 160,000 shares of the Company's common stock. These grants are contingent upon the completion by recipients of a specified employment period. As of December 31, 1989 all available shares were granted. The fair market value of the stock grant is charged to operations over the award period, which ends June 30, 1990.

The amount charged to operations for the Plan amounted to \$1,604,000, \$1,084,000 and \$743,000 in 1989, 1988 and 1987, respectively. As of December 31, 1989, options covering 283,316 shares of common stock were outstanding and options covering an additional 151,900 shares of common stock may be issued in the future.

Note 12. Funds Available for Dividends

The Bank is restricted under applicable laws in the payment of cash dividends to the Company. Such laws generally restrict cash dividend payments for the year 1990 to the extent of the Bank's earnings for 1990 plus \$61,077,476 of available earnings from prior years.

Note 13. Quarterly Financial Data (Unaudited)

The following quarterly financial information for the two years ended December 31, 1989 is unaudited. However, in management's opinion, all adjustments, which include only normal recurring adjustments necessary to present fairly the results of operations for the periods, are reflected. Results of operations for the periods are not necessarily indicative of the results for the entire year or any other interim period.

1989	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Interest Income	\$84,338,166	\$89,367,336	\$89,779,126	\$89,697,956
Net Interest Income	40,521,747	41,511,478	41,690,977	41,780,787
Provision for Possible Loan Losses	1,350,000	1,850,000	1,200,000	1,900,000
Income Before Income Tax Provision	16,550,864	17,644,786	16,926,868	11,872,629
Net Income	11,607,464	12,072,186	12,193,968	9,131,429
Net Income per Common Share	\$ 1.12	\$ 1.16	\$ 1.17	\$.87
1988	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Interest Income	\$66,309,860	\$69,873,087	\$76,920,252	\$81,784,592
Net Interest Income	33,699,826	36,005,948	39,360,028	41,455,881
Provision for Possible Loan Losses	1,500,000	2,000,000	2,000,000	2,825,000
Income Before Income Tax Provision	13,708,024	13,405,131	16,172,781	16,297,064
Net Income	9,588,224	10,023,431	11,099,161	11,303,964
Net Income per Common Share	\$.92	\$.97	\$ 1.07	\$ 1.09

Note 14. Condensed Financial Statements of Registrant: National Community Banks, Inc. (Parent Company Only)

**December 31,
1989**

Condensed Statement of Condition (a)

Assets

Cash	\$ 3,713,735
Investment in Subsidiary (b)	225,330,390
Total Assets	\$229,044,125

Liabilities and Shareholders' Equity

Accounts Payable and Accrued Expenses	\$ 20,781
Dividends Payable	3,658,046
Total Liabilities	3,678,827
Shareholders' Equity	225,365,298
Total Liabilities and Shareholders' Equity	\$229,044,125

**Year ended
December 31,
1989**

Condensed Statement of Income (a)

Income

Dividends from Subsidiary	\$ 14,581,999
Equity in Undistributed Earnings of Subsidiary	31,628,214
Total Income	46,210,213

Expense

Salaries and Employee Benefits	795,098
Interest Expense	2,111
Other Expense	407,957
Total Expense	1,205,166
Net Income	\$ 45,005,047

Note 14. Condensed Financial Statements of Registrant: National Community Banks, Inc. (Parent Company Only)
(continued)

	Year Ended December 31, 1989
Condensed Statement of Cash Flows (a)	
Cash Flows from Operating Activities:	
Net Income	\$ 45,005,047
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities—	
Amortization of Stock Grant Awards	734,424
Increase in Accounts Payable and Accrued Expenses	20,781
Undistributed Earnings in Subsidiary	(31,628,214)
Total Adjustments	(30,873,009)
Net Cash Provided by Operating Activities	14,132,038
Cash Flows From Financing Activities:	
Dividends Paid	(10,423,953)
Proceeds From Issuance of Common Stock	5,650
Net Cash Used in Financing Activities	(10,418,303)
Net Increase in Cash	\$ 3,713,735
Cash at Beginning of Year	—
Cash at End of Year	\$ 3,713,735

(a) On February 28, 1989, the shareholders of National Community Bank of New Jersey exchanged their shares on a share-for-share basis for the shares of the Company, a newly formed bank holding company. This transaction has been accounted for as a pooling of interests. Financial statements for the Parent Company Only prior to 1989 are not presented as the entity did not exist.

(b) Investment in Subsidiary is accounted for on the equity method.

Report of Independent Public Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF NATIONAL COMMUNITY BANKS, INC.

We have audited the accompanying consolidated statements of condition of National Community Banks, Inc. (a New Jersey Corporation) and its subsidiary as of December 31, 1989 and 1988, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Community Banks, Inc. and subsidiary as of December 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

Roseland, New Jersey
January 18, 1990

Arthur Andersen & Co.

SUMMARY OF SELECTED FINANCIAL DATA

	Years Ended December 31,				
	1989	1988	1987	1986	1985
<i>(In Thousands, Except Per Share Amounts)</i>					
Earnings Summary:					
Interest Income	\$ 353,183	\$ 294,888	\$ 227,857	\$ 186,287	\$ 167,573
Interest Expense	187,878	144,366	105,697	85,951	85,309
Net Interest Income	165,505	150,522	122,160	100,336	82,264
Provision for Possible Loan Losses	6,300	8,325	7,600	5,650	4,300
Net Interest Income After Provision For Possible Loan Losses	159,205	142,197	114,560	94,686	77,964
Other Income	32,446	26,169	20,683	17,933	12,982
Other Expenses	128,656	108,783	88,107	75,478	62,855
Income Before Income Tax Provision	62,995	59,583	47,136	37,141	28,091
Income Tax Provision	17,990	17,568	12,602	9,695	5,830
Net Income	\$ 45,005	\$ 42,015	\$ 34,534	\$ 27,446	\$ 22,261
Weighted Average Common Shares					
Outstanding	10,427	10,375	10,352	10,320	10,312
Net Income per Common Share	\$4.32	\$4.05	\$3.34	\$2.66	\$2.16
Statement of Condition Summary:					
Investment Securities	\$ 448,689	\$ 400,734	\$ 388,865	\$ 379,086	\$ 356,252
Loans	2,981,465	2,769,017	2,335,802	1,787,731	1,290,496
Total Assets	4,022,772	3,614,416	3,153,051	2,748,370	2,032,756
Deposits	3,550,851	3,078,797	2,691,373	2,435,807	1,707,471
Shareholders' Equity	225,365	193,702	163,513	138,242	117,782
Ratios:					
Return on Average Assets	1.20%	1.25%	1.24%	1.22%	1.22%
Return on Average Shareholders' Equity	21.48	23.64	22.75	21.50	20.39
Dividend Payout	31.25	29.88	28.74	29.32	34.26
Average Shareholders' Equity to Average Assets	5.59	5.29	5.46	5.66	6.37
Allowance for Possible Loan Losses to Loans Outstanding	1.06	1.05	1.01	1.00	1.10

MARKET PRICES AND DIVIDEND DATA

The following table sets forth, for each of the periods indicated, the high and low closing sales prices of the Company's Common Stock on the NASDAQ National Market System (as reported by the National Quotation Bureau) and the dividends declared thereon.

	Closing Sales Price		Dividends Declared
	High	Low	
Year Ended December 31, 1988:			
First Quarter	\$42	\$35½	\$.23
Second Quarter	42½	39½	.30
Third Quarter	41½	35½	.30
Fourth Quarter	37	32¾	.36
Year Ended December 31, 1989:			
First Quarter	37¼	34	.30
Second Quarter	39½	36¾	.35
Third Quarter	44¾	37½	.35
Fourth Quarter	41	31	.35

As of December 31, 1989, there were approximately 6,700 shareholders of record of the Company's Common Stock. Dividends on the Company's Common Stock are within the discretion of the Board of Directors of the Company and are dependent upon various factors, including the future earnings and financial condition of the Bank and bank regulatory policies. Federal and state laws and regulations contain restrictions on the ability of the Bank to pay dividends to the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital," "Business - Supervision and Regulation" and Note 12 of the Notes to Consolidated Financial Statements.

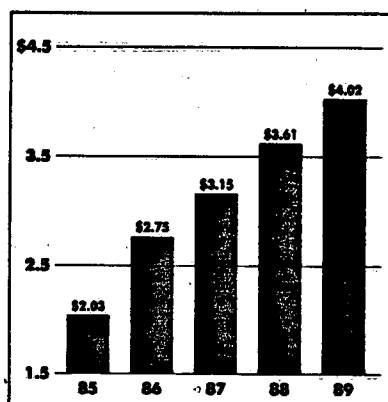
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's Consolidated Financial Statements, the notes relating thereto, and the other statistical data presented elsewhere herein.

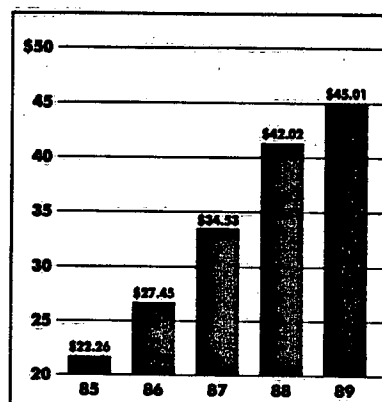
For the five year period from 1985 to 1989, the Company demonstrated strong growth in both assets and earnings. The Company doubled its size from an approximate \$2 billion dollar institution with 72 branches in 11 counties to over \$4 billion in assets having 111 branch offices in 12 counties. At the same time, net income and earnings per share rose from \$22.3 million and \$2.16 per share in 1985 to over \$45 million and \$4.32 per share in 1989. This equates to compound growth rates of 21.4% for net income and 20.9% for earnings per share. As a reflection of the Company's strong earnings, the annual dividends declared per share increased from \$.74 in 1985 to \$1.35 per share in 1989. The book value per share of \$21.56 on December 31, 1989 was an 88% increase over the \$11.45 per share amount as of December 31, 1985.

These increases were accomplished in a dynamic economic period: interstate banking became a reality; intrastate mergers accelerated; the crisis in the savings and loan industry arose; the distinction among conventional financial industry products blurred; and consumers became increasingly aware of services and interest rates. Throughout this period, the Company's growth was internally generated. There were no mergers or acquisitions, nor was there any external generation of capital through the issuance of new equity or debt instruments. The expansion of the branch network was accomplished through a successful "de novo" campaign. Results of operations for the past five years were impacted by the branch expansion program. The average new branch takes approximately two to three years to become profitable due to start up costs and market penetration. In addition, earnings were diminished somewhat by the shift to higher cost deposits primarily due to deregulation and greater consumer awareness of rates.

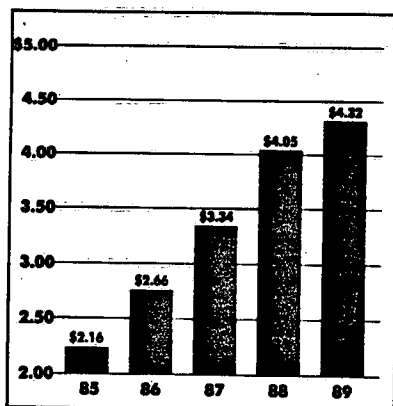
**ASSETS
(IN BILLIONS)**



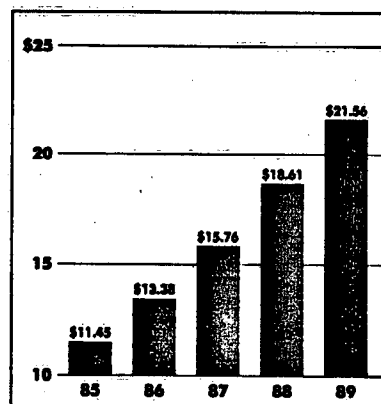
**EARNINGS
(IN MILLIONS)**



**EARNINGS PER SHARE
(IN DOLLARS)**



**BOOK VALUE PER SHARE
(IN DOLLARS)**



EARNINGS PERFORMANCE

Overview

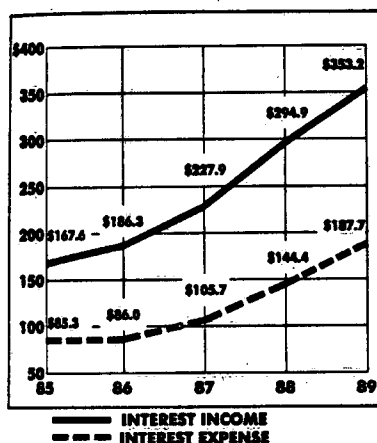
The Company's net income increased by \$3.0 million in 1989. This increase reflects increases in net interest income and other (i.e., non-interest) income and a decrease in the provision for possible loan losses, which factors offset increases in other (non-interest) expenses and the provision for income taxes. In 1988, the \$7.5 million increase in net income over 1987 resulted from increases in net interest income and other income, offset by increases in the provisions for possible loan losses and income taxes and an increase in other expenses.

Overall profitability remained strong: although the Company did not match recent profitability milestones, its 1989 return on average assets of 1.20% and its 1989 return on average equity of 21.48% still reflect impressive earnings performance. A benchmark for a strong performing banking institution is 1.00% for return on average assets and 15.0% for return on average equity.

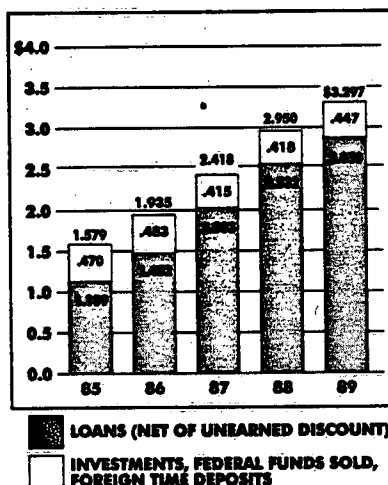
Net Interest Income

The principal component of income is net interest income—the difference between interest received on assets, primarily loans and investments, and the interest expense paid on liabilities, such as deposits and borrowings. These components are affected by changes in the volume of earning assets and interest-bearing liabilities, changes in interest rates earned and paid, and the amount of earning assets funded by non-interest bearing deposits, low cost deposits and by shareholders' equity.

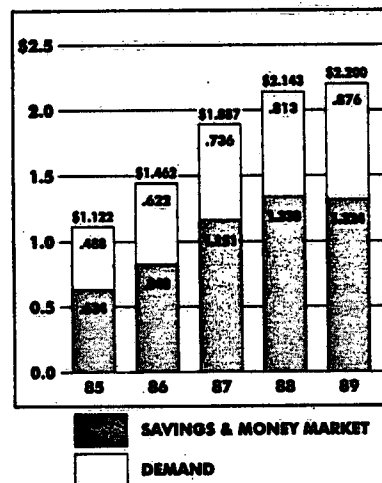
**INTEREST INCOME AND
INTEREST EXPENSE
(IN MILLIONS)**



**AVERAGE EARNING ASSETS
(IN BILLIONS)**



**AVERAGE CORE DEPOSITS
(IN BILLIONS)**



The following table reflects the components of net interest income, setting forth, for the five years ended December 31, 1989: (i) average assets, liabilities and shareholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average rates earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) the Company's net interest spread (i.e., the difference between the average rate earned on earning assets and the average rate paid on interest bearing liabilities) and (v) the Company's net yield on interest earning assets (i.e., net interest income divided by average earning assets). Dollar amounts are presented in thousands and on a tax-equivalent basis. The assumed tax rate was 34% in 1989 and 1988; 40% in 1987; and 46% in 1986 and 1985. Loan balances include non-performing loans.

	1989			1988		
	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
ASSETS						
Interest earnings assets:						
Taxable loans (net of unearned income)	\$2,712,423	\$306,053	11.28%	\$2,379,232	\$251,424	10.57%
Tax-exempt loans	137,658	18,804	13.66	152,831	18,980	12.42
Taxable investment securities	270,455	23,199	8.58	269,876	22,068	8.18
Tax-exempt investment securities	150,283	13,997	9.31	123,950	10,867	8.77
Interest bearing deposits	4,509	425	9.43	3,391	263	7.76
Federal funds sold and securities purchased subject to resale	21,751	1,857	8.54	20,912	1,434	6.86
Total interest earning assets	3,297,079	364,335	11.05	2,950,192	305,036	10.34
Allowance for loan losses	(30,941)			(26,569)		
Non-earning assets	480,202			435,487		
Total Assets	<u>\$3,746,340</u>			<u>\$3,359,110</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Demand deposits	\$ 875,814			\$ 813,307		
Interest bearing liabilities:						
Domestic time deposits:						
Savings deposits	1,324,610	76,728	5.79	1,330,050	72,384	5.44
Time deposits	1,025,212	87,785	8.56	801,829	57,716	7.20
Foreign time deposits	4,509	422	9.36	3,391	253	7.46
Short-term borrowings	249,302	22,743	9.12	184,650	14,013	7.59
Total interest bearing liabilities	2,603,633	187,678	7.21	2,319,920	144,366	6.22
Total deposits and borrowings	3,479,447			3,133,227		
Other liabilities	57,398			48,130		
Shareholders' equity	209,495			177,753		
Total liabilities and shareholders' equity	<u>\$3,746,340</u>			<u>\$3,359,110</u>		
Net interest spread		<u>\$176,657</u>	3.84%		<u>\$160,670</u>	4.12%
Net yield on interest earning assets			5.36%			5.45%
Tax-equivalent adjustments:						
Loans		\$ 6,393			\$ 6,453	
Investment securities		4,759			3,695	
Total		<u>\$ 11,152</u>			<u>\$ 10,148</u>	

1987			1986			1985		
Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
\$1,837,635	\$184,173	10.02%	\$1,282,108	\$135,485	10.57%	\$ 975,687	\$115,236	11.81%
165,874	21,065	12.70	170,467	23,878	14.01	132,666	21,100	15.90
251,399	21,515	8.56	212,091	21,325	10.05	204,489	22,068	10.79
127,765	11,968	9.37	149,670	15,667	10.47	138,927	14,901	10.73
7,416	477	6.43	36,413	2,562	7.04	64,943	5,480	8.44
28,233	1,872	6.63	84,501	5,561	6.58	61,919	5,349	8.64
2,418,322	241,070	9.97	1,935,250	204,478	10.57	1,578,631	184,134	11.66
(20,578)			(15,617)			(12,086)		
384,592			335,432			256,823		
<u>\$2,782,336</u>			<u>\$2,255,065</u>			<u>\$1,823,368</u>		
<u>\$ 735,681</u>			<u>\$ 621,802</u>			<u>\$ 487,803</u>		
1,151,366	60,011	5.21	840,057	42,506	5.06	634,104	35,380	5.58
549,399	35,391	6.44	434,252	30,788	7.09	388,314	36,379	9.37
3,447	216	6.27	3,795	243	6.40	3,073	263	8.56
154,986	10,079	6.50	190,790	12,414	6.51	170,679	13,287	7.78
1,859,198	105,697	5.69	1,468,694	85,951	5.85	1,196,170	85,309	7.13
2,594,879			2,090,696			1,683,973		
35,635			36,714			30,225		
151,822			127,655			109,170		
<u>\$2,782,336</u>			<u>\$2,255,065</u>			<u>\$1,823,368</u>		
<u>\$135,373</u>	4.28%		<u>\$118,527</u>	4.72%		<u>\$ 98,825</u>	4.53%	
	5.60%			6.12%			6.26%	
\$ 8,426			\$ 10,984			\$ 9,706		
4,787			7,207			6,855		
<u>\$ 13,213</u>			<u>\$ 18,191</u>			<u>\$ 16,561</u>		

Net interest income also may be analyzed by segregating the volume and rate components of interest income and interest expense. The following table presents an analysis of volume and rate changes in net interest income. For purposes of this table (which is presented on a tax-equivalent basis), changes are allocated to such categories based on the respective percentage changes in average balances and average rates. Changes which are not specifically identifiable are allocated on a weighted average basis between volume and rate. Dollar amounts are in thousands of dollars.

	1989 versus 1988			1988 versus 1987		
	Increase (Decrease) Due to Change in		Total Increase (Decrease)	Increase (Decrease) Due to Change in		Total Increase (Decrease)
	Average Volume	Average Rate		Average Volume	Average Rate	
Interest income:						
Taxable loans (net of unearned income)	\$37,595	\$17,034	\$54,629	\$57,233	\$10,018	\$67,251
Tax-exempt loans	(2,073)	1,897	(176)	(1,620)	(465)	(2,085)
Taxable investment securities	50	1,081	1,131	1,511	(958)	553
Tax-exempt investment securities	2,453	677	3,130	(334)	(767)	(1,101)
Interest bearing deposits	105	57	162	(312)	98	(214)
Federal funds sold and securities purchased subject to resale	72	351	423	(502)	64	(438)
Total interest income	38,202	21,097	59,299	55,976	7,990	63,966
Interest expense:						
Domestic time deposits						
Savings deposits	(315)	4,659	4,344	9,724	2,649	12,373
Time deposits	19,127	10,942	30,069	18,170	4,155	22,325
Foreign time deposits	105	64	169	(4)	41	37
Short-term borrowings	5,898	2,832	8,730	2,251	1,683	3,934
Total interest expense	24,815	18,497	43,312	30,141	8,528	38,669
Net interest income	\$13,387	\$ 2,600	\$15,987	\$25,835	(\$ 538)	\$25,297

1987 versus 1986			1986 versus 1985		
Increase (Decrease) Due to Change in		Total Increase (Decrease)	Increase (Decrease) Due to Change in		Total Increase (Decrease)
Average Volume	Average Rate		Average Volume	Average Rate	
\$55,676	(\$ 6,988)	\$48,688	\$32,381	(\$12,132)	\$20,249
(583)	(2,230)	(2,813)	5,295	(2,517)	2,778
3,364	(3,174)	190	764	(1,507)	(743)
(2,052)	(1,647)	(3,699)	1,125	(359)	766
(1,865)	(220)	(2,085)	(2,007)	(911)	(2,918)
(3,731)	42	(3,689)	1,486	(1,274)	212
50,809	(14,217)	36,592	39,044	(18,700)	20,344
16,226	1,279	17,505	10,421	(3,295)	7,126
7,418	(2,815)	4,603	3,257	(8,848)	(5,591)
(22)	(5)	(27)	46	(66)	(20)
(2,328)	(7)	(2,335)	1,309	(2,182)	(873)
21,294	(1,548)	19,746	15,033	(14,391)	642
\$29,515	(\$12,669)	\$16,846	\$24,011	(\$ 4,309)	\$19,702

The components of net interest income (presented on a tax equivalent basis) for each of the past three years were as follows:

	Years Ended December 31,			Change from Prior Year			
	1989	1988	1987	1989		1988	
				Amount	Percent	Amount	Percent
	(Dollars in Thousands)						
Interest income	\$364,335	\$305,036	\$241,070	\$59,299	19.4%	\$63,966	26.5%
Interest expense	187,678	144,366	105,697	43,312	30.0%	38,669	36.6%
Net Interest Income	<u>\$176,657</u>	<u>\$160,670</u>	<u>\$135,373</u>	<u>\$15,987</u>	10.0%	<u>\$25,297</u>	18.7%

Comparisons of tax equivalent net interest income between years have been affected by changes in the assumed tax rate from 40% in 1987 to 34% in 1988 and 1989; in general, a lower statutory rate results in lower tax equivalent net interest income.

The \$16.0 million increase in net interest income from 1988 to 1989 resulted primarily from increases in loan volume. This is attributable, for the most part, to expanded customer demand and the Company's promotional campaigns primarily directed toward consumer loans. Average loans (excluding tax-exempt financings) increased by \$333.2 million, or 14.0%, from 1988 to 1989, attributable in large part to increases in real estate mortgages and consumer loans. The expansion in the loan portfolio was funded primarily by a \$217.9 million increase in average savings and time deposits, a \$62.5 million increase in average demand deposits and a \$64.7 million increase in average short-term borrowings. The Company's net interest margin (i.e., net interest income, calculated on a tax equivalent basis, as a percentage of average earning assets) declined by 9 basis points, reflecting a decreasing spread, a more expensive mix of funding sources and an increase in non-accruing loans during 1989.

Net interest income (on a tax equivalent basis) increased by \$25.3 million from 1987 to 1988. As in the current year, the improvement in net interest income reflected the Company's increased loan volume, again due primarily to increased demand and advertising efforts. During 1988, average mortgage loans increased by 36.4% over the prior year and average consumer loans increased by 21.2%. Although a significant portion of this increase was funded by increases in non-interest bearing and low interest bearing deposits, the Company's net interest margin was nevertheless compressed by 15 basis points, reflecting a reduced spread resulting from the decreasing rate environment. The Company was positively matched in its rate sensitivity composition which affected net interest income in 1988.

Non-Interest Income

The following table reflects the components of non-interest income for the past three years:

	Years Ended December 31,		
	1989	1988	1987
	(In thousands)		
Trust income		\$ 2,300	\$ 2,210
Service charges on deposit accounts	\$ 3,000	14,748	11,591
International fees and commissions	17,049	4,073	3,079
Other income	4,566	5,048	3,803
Total	<u>7,831</u>	<u>5,048</u>	<u>3,803</u>
	<u>\$32,446</u>	<u>\$26,169</u>	<u>\$20,683</u>

In 1989 and 1988, non-interest income grew \$6.3 million or 24.0% and \$5.5 million or 26.5%, respectively. The increase in trust income during the periods primarily reflects increased trust assets under management and increases in the fee structure. Growth in these periods in both service charges on deposit accounts and international fees and commissions can in large part, be ascribed to aggressive marketing of additional services to corporations and consumers, together with repricing of certain existing services to ensure ongoing profitability of each service. In 1989, other income includes a one time non-recurring gain of \$2.5 million due to the Company's relinquishing its interest in the right to purchase credit card accounts.

Non-Interest Expenses

The following table reflects the components of non-interest expenses for the past three years:

	Years Ended December 31,		
	1989	1988	1987
	(In thousands)		
Salaries and employee benefits	\$ 72,008	\$ 58,537	\$48,279
Net occupancy expense	14,105	11,626	8,632
Equipment expense	9,702	8,204	6,724
Other expenses	32,841	30,416	24,472
Total	<u>\$128,656</u>	<u>\$108,783</u>	<u>\$88,107</u>

The year-to-year increases in salaries and employee benefits reflect standard and merit salary increases and additional costs for fringe benefits, primarily health benefits. The increase in branch offices, from 82 offices at January 1, 1987 to 111 offices at December 31, 1989, together with the upgrading of facilities were the primary factors in the increases in occupancy expense and equipment expense. Other operating expenses increased from \$24.5 million in 1987 to \$32.8 million in 1989, primarily reflecting increases in insurance (including FDIC), legal, postage, telephone and stationery and printing costs.

Provision for Possible Loan Losses

The Company's provision for possible loan losses was \$6.3 million in 1989, as compared with \$8.3 million in 1988 and \$7.6 million in 1987. The provision represents charges to earnings taken by the Company to maintain an Allowance for Possible Loan Losses which, after the impact of net-charge-offs, is expected to be sufficient to protect the Company against future losses in the loan portfolio.

The inter-relationship among the provision for possible loan losses, charge-offs, recoveries and the Allowance for Possible Loan Losses is reflected in the following table:

	1989	1988	1987	1986	1985
			(In Thousands)		
Balance of Allowance at Beginning of Year	\$29,112	\$23,610	\$17,874	\$14,224	\$10,522
Charge-Offs:					
Commercial and Industrial	3,624	2,555	1,747	2,851	1,191
Consumer	1,160	1,523	1,230	930	737
Total Charge-Offs	4,784	4,078	2,977	3,781	1,928
Recoveries:					
Commercial and Industrial	637	752	590	1,500	1,060
Consumer	418	503	523	281	270
Total Recoveries	1,055	1,255	1,113	1,781	1,330
Net Charge-Offs	3,729	2,823	1,864	2,000	598
Provision for Possible Loan Losses	6,300	8,325	7,600	5,650	4,300
Balance of Allowance at End of Year	<u>\$31,683</u>	<u>\$29,112</u>	<u>\$23,610</u>	<u>\$17,874</u>	<u>\$14,224</u>
Ratio of Net Charge-Offs to Average Loans Outstanding	0.13%	0.11%	0.09%	0.14%	0.05%
Balance of Allowance at Year End as a Percent of Year-End Loans	1.06%	1.05%	1.01%	1.00%	1.10%

The determination of an appropriate level for the allowance for possible loan losses (which determination, together with the level of net charge-offs, governs the amount of the provision for possible loan losses) is based upon an analysis of the risks inherent in the Company's loan portfolio. The analysis is performed on a continuous basis by account officers, various loan committees, and the Bank's Loan Review Department. A risk rating system has been established as an analytical tool, consisting of eight numerical ratings. In assigning a rating to a given loan, various factors are weighted, including: (a) the financial status and past credit history of the borrower; (b) available collateral, its valuation and support; (c) documentation of the loan; and (d) concentrations within industry, geographic locale or collateral type.

In conjunction with the review of loans and loan portfolios, the Loan Review Department performs a quarterly analysis of the adequacy of the Allowance for Possible Loan Losses for the Board of Directors. This analysis consists primarily of percentage allocations with respect to the performing portfolio, together with incremental increases allocated to the loans in the lower four risk rating categories. Potential loss is compared to the actual allowance to determine its adequacy. Historic charge-off and recovery ratios, projected loan growth and the adequacy of collateral are also considered. Appropriate recommendations are then made to the Board regarding the amount to be charged against earnings (i.e., the provision for possible loan losses) in order to maintain the Allowance for Possible Loan Losses at an adequate level.

The Company's management believes that an Allowance for Possible Loan Losses of approximately 1% of loans is an adequate level for the loan portfolio considering the above mentioned review procedures. As a result, management recorded a provision for possible loan losses of \$6.3 million in 1989, bringing the Allowance for Possible Loan Losses to \$31.7 million (1.06% of total loans) at December 31, 1989. Management believes this amount is adequate to absorb such losses as may arise in the loan portfolio. The 1988 and 1987 provisions for possible loan losses are partially attributable to the net loan growth in the respective years. The earnings coverage (pre-tax earnings plus the provision for possible loan losses) was 18.6 times net charge-offs in 1989 and 24.1 times net charge-offs in 1988. No assurances can be given, however, that the Company will not sustain losses in any given year which could be substantial in relation to the size of the Company's Allowance.

Income Taxes

The Company's effective Federal income tax rate for the years ended December 31, 1989, 1988 and 1987 was approximately 29%, 30% and 27%, respectively. These rates were lower than the applicable statutory rates due to the effect of tax exempt income from certain loans and investments. The effective tax rates were achieved by management's tax planning strategies. For additional information regarding income tax matters, see Note 8 of the Notes to Consolidated Financial Statements.

ASSET QUALITY

The tables set forth on pages 47-48 of this Annual Report describe the categories of assets within the Company's loan and investment securities portfolios and present certain information regarding the maturities within these portfolios.

It is inherent in the management of a financial institution that credit risks will be assumed and that, on occasion, losses will be incurred with respect to specific loans. One measure of credit risk is the extent to which a financial institution's loans have ceased to perform in accordance with the terms initially agreed upon by the institution and its borrowers. The following schedule sets forth certain information regarding non-accrual and other past due loans as of December 31 for each of the last five years:

	1989	1988	1987	1986	1985
	(In Thousands)				
Non-Accrual Loans (A)	\$48,380	\$11,774	\$11,063	\$ 4,392	\$4,868
Past Due Loans (B)	26,293	22,021	9,137	9,758	4,874
Total Non-Performing Loans	<u>\$74,673</u>	<u>\$33,795</u>	<u>\$20,200</u>	<u>\$14,150</u>	<u>\$9,742</u>
Ratio of non-performing loans to loans outstanding	2.50%	1.22%	0.86%	0.79%	0.75%

(A) Generally represents those commercial and real estate loans on which the payment of interest or principal is in arrears for a period of more than 90 days. Current policy requires that interest previously accrued on these loans and not yet paid be reversed and charged against income during the current period. Interest earned thereafter is only included in income to the extent that it is received.

(B) Primarily represents those commercial and real estate loans on which payments of interest or principal are contractually past due 90 days or more but which are currently accruing income at the contractually stated rates. A determination is made to continue accruing income on such loans only when such loans are believed to be fully collectible. Generally consumer loans are charged off if the credit is in arrears for more than 90 days.

As of December 31, 1989, there were also \$87,000 of loans characterized as "troubled debt," as defined in Statement of Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring." The Company did not have any loans classified as "troubled debt" in the prior years covered by the table set forth above.

Non-performing loans (including the troubled debt described above) increased by \$40.9 million, or 121.0%, from December 31, 1988 to December 31, 1989. This increase resulted primarily from a \$36.6 million increase in non-accrual loans. Approximately 59% of the increase in non-accruals reflects real estate loans made to two borrowers. Each of these loans are secured by real estate. Although the Company may incur a loss on a portion of its non-accrual loans, management believes that with respect to most of such loans, the collateral values equal or constitute a substantial percentage of the outstanding balance. With respect to loans which were non-accruing or troubled debt at December 31, 1989, an immaterial amount was recognized as interest income on such loans during 1989 and a total of \$4.9 million in additional interest income would have been recognized in 1989 had such loans been current throughout the period in 1989 that such loans were outstanding.

Loans are typically charged-off when they are identified by management or classified as "loss" by the Bank's Loan Review Department or by regulatory authorities. Charge-offs on particular commercial and real estate loans are made after the specific loan has been reviewed. Generally, consumer loans are charged-off if the credit is in arrears for more than 90 days. Although the Company's net charge-offs increased by \$.9 million in both 1989 and 1988, its net charge-offs as a percentage of average loans outstanding was .13% in 1989 and .11% in 1988, below peer group averages. The increase in net charge-offs during 1989 and 1988 primarily reflect deterioration of certain commercial loans.

The Company establishes its Allowance for Possible Loan Losses as a general allowance applicable to future losses throughout its loan portfolio and, for internal operating purposes, does not allocate the allowance among specific loan classifications. Management does not anticipate that charge-off experience in 1990 will differ materially from charge-offs in 1989, although no assurances can be given in this regard.

Except for loans which were non-performing as of December 31, 1989, management does not believe that the Company has a material amount of loans as to which management has serious doubts about the borrower's ability to comply with existing loan terms, or which would likely result in a reclassification to non-accrual status at a future date.

With regard to consumer loans, the Company has not experienced any unusual changes in the amounts of non-performing loans or charge-offs. The Company's loan portfolio includes small amounts in dealer floor planning, indirect consumer paper and lease financing. In addition, the Company does not maintain a credit card portfolio. The above mentioned items are traditionally the areas where financial institutions incur higher percentages of losses in their consumer loan portfolios.

The Company's loan portfolio remains diverse. As of December 31, 1989, there were no concentrations exceeding ten percent of total loans. A concentration is defined as amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly affected by changes in economic or other conditions.

The Company continues to subscribe to conservative lending philosophies. There are no foreign loans in the portfolio and the Company typically does not finance highly leveraged transactions ("HLT's"). Similarly, the Company generally declines to finance speculative office building construction. As a result, the problems with loans to developing countries (so called "LDC" loans), HLT loans and office building foreclosures affecting many financial institutions are not a factor in the Company's loan portfolio. Moreover, the amount of fixed rate mortgage loans maturing beyond one year and carrying rates below current market rates is insignificant.

Included in Other Assets in the Company's Statements of Condition are amounts reflecting real estate acquired through foreclosures. The amounts as of December 31, 1989, 1988 and 1987 are as follows: \$746,000; \$883,000 and \$491,000, respectively.

LIQUIDITY AND INTEREST RATE SENSITIVITY

Liquidity is the Company's ability to maintain sufficient sources of funds to meet all requirements, including demand for new loans, deposit withdrawals and maturing liabilities. The Company manages both rate sensitive assets and liabilities, along with current and future liquidity requirements, through its Asset and Liability Management Committee (ALCO). The liquidity required to fund the needs of the Company's customers arises from the conversion of readily marketable assets to cash, the receipt of loan payments, and maturing earning assets. Liquidity from liabilities is generated by "core deposit" growth. Core deposits do not require significant amounts of liquidity to support the net short or immediate term demand of customers. At December 31, 1989, "core deposits" represented 69% of total deposits; at year end 1988 and 1987 the percentage was 74%. In addition, the Company has established lines of credit with the Federal Reserve Bank, correspondent banks, and other funding sources which further support and enhance the liquidity position.

Interest rate sensitivity is related to liquidity in that each is affected by maturing assets and sources of funds. Interest rate sensitivity, however, also reflects the fact that certain types of assets and liabilities have rates which are subject to change prior to maturity. Business loans tied to the prime rate and variable rate money market deposits are two examples of this. Management of rate sensitivity and the risk associated with changing interest rates has become increasingly important in recent years. Interest rate risk is theoretically eliminated when the rate of interest sensitive assets to interest sensitive liabilities is 1:1. However, this model would have some degree of inaccuracy due to time lags, i.e., assets may reprice quicker than liabilities or vice versa.

Management's objective is to optimize net interest income and minimize interest rate risk by measuring the potential impact of changing market interest rates. Rate sensitivity is measured by gaps, i.e., the difference between interest sensitive assets and interest sensitive liabilities within a specific time period. A positive or negative gap demonstrates the potential exposure to interest rate fluctuations. To the extent that the gap is close to zero, net interest income is protected from substantial interest rate fluctuation for that time period. The Bank measures its rate sensitivity in time frames of 30 days, 90 days, 180 days, one year and one to five years. This analysis is critical, in that in periods of changing rates, short-term interest rate positions have an immediate effect on earnings.

The Company completed 1989 with a positive gap, i.e., interest sensitive assets exceeded interest sensitive liabilities, in almost all time horizons. The following table illustrates the Company's interest sensitivity gap as of December 31, 1989, 1988 and 1987.

	0-30 Days Gap	0-90 Days Gap	0-180 Days Gap	0-365 Days Gap	1-5 Year Gap
			(In Millions)		
1989	\$ 31	\$ 12	(\$ 53)	\$ 85	\$673
1988	73	118	58	139	574
1987	92	83	55	178	591

CAPITAL

Regulators have defined bank capital to include primary and secondary capital. Primary capital consists of common and preferred stock, surplus, undivided profits, contingency and other capital reserves, mandatory convertible issuances, and the allowance for possible loan losses. Secondary capital includes qualifying subordinated debt and limited life preferred stock. Regulatory guidelines presently require that primary capital constitute at least 5.5% of total assets plus the allowance for possible loan losses and that total capital (primary capital and total capital) constitute at least 6.0% of total assets plus the allowance for possible loan losses. The Company's total capital consists entirely of primary capital; i.e., the Company, which generates capital almost entirely from retained earnings, does not rely on subordinated debt to support capital. The Company's shareholders' equity increased by \$30.2 million or 18.5% from December 31, 1987 to December 31, 1988 and by \$31.7 million or 16.3% from December 31, 1988 to December 31, 1989. The Company's primary capital ratio was 6.62% at December 31, 1985, 6.31% at December 31, 1986, 6.21% at December 31, 1987, 6.19% at December 31, 1988 and 6.56% at December 31, 1989.

Bank regulators have issued risk-based guidelines which supplement the existing definitions of capital for regulatory purposes and establish new minimum capital standards related to the level of assets and off-balance sheet exposures, adjusted for credit risk. Specifically, the new guidelines categorize assets and off-balance sheet items into four risk-weightings and require banking institutions to maintain a minimum ratio of total capital to risk-weighted assets. Tier I capital is essentially comprised of tangible shareholders' equity for common stock and certain perpetual preferred stock and Tier II capital includes a portion of the allowance for possible loan losses, certain qualifying long-term debt and preferred stock which does not qualify as Tier I capital. By 1992, the regulatory minimum for Tier I capital will be 4.0% of risk adjusted assets and the minimum for the aggregate of Tier I and Tier II capital will be 8.0%. At December 31, 1989, the Company's Tier I and combined Tier I/Tier II risk-based capital ratios were 7.4% and 8.4%, respectively.

In addition to the risk-adjusted guidelines discussed above, the Board of Governors of the Federal Reserve System recently issued for comment proposed transition and leverage standards. The proposed standards would enable a banking organization to conform during 1990 to either the existing minimum 5.5% and 6.0% ratios of primary and total capital to total assets or the 7.25% minimum risk-based capital standard required by December 31, 1990 under the risk-based transition rules. Under the proposal, banking organizations would be required to maintain, as a minimum leverage standard a Tier I capital (computed without regard to the transition rules in effect until December 31, 1992) to total assets ratio of 3% commencing in 1990. Under these guidelines, institutions operating at the 3% minimum are expected to have well diversified risk profiles, including no undue interest rate risk, excellent asset quality, high liquidity and strong earnings. Institutions experiencing growth or with high levels of risk would be expected to maintain Tier I capital levels above the minimum.

SELECTED STATISTICAL INFORMATION

The statistical data set forth in the following tables should be read in conjunction with the Company's Consolidated Financial Statements, the notes relating thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations", each of which is presented elsewhere herein.

Investment Securities

The following table sets forth the book value of the Company's investment securities as of December 31, for each of the last three years:

	1989	1988	1987
	(In Thousands)		
U.S. Treasury Securities	\$ 69,381	\$ 84,820	\$ 93,853
Obligations of U.S. Government Agencies	174,946	146,754	107,937
Obligations of States and Political Subdivisions	183,505	134,527	118,132
Other Securities (Primarily Corporate Taxable Bonds)	20,857	34,633	68,943
Total	<u>\$448,689</u>	<u>\$400,734</u>	<u>\$388,865</u>

In management's opinion, the Company's investment securities portfolio is diversified. At December 31, 1989, book and market values were within .1% of each other. There were no material sales out of the investment portfolio for the three year period ended December 31, 1989. The securities in the portfolio are usually held to maturity or call. Based upon analysis of the portfolio, management does not expect future yields to be materially different than historic average yields.

For information regarding the market values of such securities as of December 31, 1989 and 1988, see Note 3 of the Notes to Consolidated Financial Statements.

Maturities and Average Weighted Yields of Investment Portfolio

The following table sets forth the maturity distribution and weighted average yields (calculated on the basis of the stated yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis (assuming a 34% Federal income tax rate), of the investment securities held by the Company as of December 31, 1989:

	Within 1 Year	After 1 Year but Within 5 Years	After 5 Years but Within 10 Years	After 10 Years	Total
	(Dollars In Thousands)				
U.S. Treasury Securities:					
Book Value	\$ 46,815	\$ 22,070	\$ 0	\$ 496	\$ 69,381
Yield	7.79%	8.39%		8.27%	7.98%
Obligations of U.S. Government Agencies:					
Book Value	70,290	54,920	0	49,736	174,946
Yield	8.57%	8.51%		9.44%	8.80%
Obligations of States and Political Subdivisions:					
Book Value	133,431	42,242	7,832	0	183,505
Yield	9.40%	9.19%	9.55%		9.35%
Other Securities:					
Book Value	5,209	14,993	645	10	20,857
Yield	7.75%	7.72%	5.50%	5.50%	7.31%
Total Book Value	<u>\$255,745</u>	<u>\$134,225</u>	<u>\$ 8,477</u>	<u>\$ 50,242</u>	<u>\$448,689</u>
Total Yield	<u>8.84%</u>	<u>8.62%</u>	<u>9.25%</u>	<u>9.42%</u>	<u>8.83%</u>

Loan Portfolio

The following table sets forth the classification of the Company's loans by major category as of December 31, for each of the last five years:

	1989	1988	1987	1986	1985
	(In Thousands)				
Commercial and Industrial	\$ 580,000	\$ 510,259	\$ 465,822	\$ 354,058	\$ 273,830
Real Estate—Mortgage	1,785,800	1,670,037	1,349,983	972,800	619,502
Real Estate—Construction	285,755	273,529	188,944	106,069	63,278
Consumer	182,417	154,832	160,506	164,186	149,085
Obligations of States and Political Subdivision	133,724	142,522	157,693	177,235	171,311
Other	13,769	17,838	12,854	13,383	13,490
Total Loans	2,981,465	2,769,017	2,335,802	1,787,731	1,290,496
Less: Unearned Income	(15,429)	(11,992)	(11,384)	(7,848)	(6,060)
Allowance for Possible Loan Losses	(31,683)	(29,112)	(23,610)	(17,874)	(14,224)
Net Loans	<u>\$2,934,353</u>	<u>\$2,727,913</u>	<u>\$2,300,808</u>	<u>\$1,762,009</u>	<u>\$1,270,212</u>

Maturities and Loans Sensitive to Changes in Interest Rates

The following table sets forth certain categories of loans as of December 31, 1989 in terms of maturity and interest rate sensitivity:

	Within 1 Year	1 to 5 Years	After 5 Years	Total
	(In Thousands)			
Commercial and Industrial	\$332,834	\$192,290	\$54,876	\$580,000
Real Estate—Construction	166,317	109,426	10,012	285,755
Total	<u>\$499,151</u>	<u>\$301,716</u>	<u>\$64,888</u>	<u>\$865,755</u>
Loan with Fixed Rates		\$ 35,979	\$ 5,788	
Loans with Adjustable Rates		265,737	59,100	
Total		<u>\$301,716</u>	<u>\$64,888</u>	

For further information regarding interest rate sensitivity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Interest Rate Sensitivity." Refer to page 45.

Deposits

The average amounts of various types of deposits for each of the three years ended December 31, are as follows:

	1989	1988	1987
	(In Thousands)		
Demand deposits	\$ 875,814	\$ 813,307	\$ 735,681
Savings deposits	1,324,610	1,330,050	1,151,366
Time deposits	1,025,211	801,829	549,399
Foreign Time Deposits	4,509	3,391	3,447
Total	<u>\$3,230,144</u>	<u>\$2,948,577</u>	<u>\$2,439,893</u>

As of December 31, 1989, the aggregate amount of outstanding time certificates of deposit issued in amounts of \$100,000 or more, broken down by time remaining to maturity, was as follows:

	(In Thousands)
Three months or less	\$458,207
Over three months through six months	22,160
Over six months through twelve months	2,609
Over twelve months	1,192
Total	<u>\$484,168</u>

Short Term Borrowings

Short-term borrowings included the following:

	December 31,		
	1989	1988	1987
	(In Thousands)		
Federal Funds Purchased:			
Balance at Year-End	\$ 83,726	\$189,409	\$159,854
Average Rate at Year-End	8.00%	8.31%	6.93%
Maximum Amount Outstanding at any Month End	\$271,397	\$189,409	\$159,854
Average Amount Outstanding During Year	\$149,405	\$ 99,625	\$ 72,028
Average Rate During Year	9.37%	7.87%	6.80%
Securities Sold Under Agreements to Repurchase:			
Balance at Year-End	\$ 99,322	\$ 87,685	\$ 77,688
Average Rate at Year-End	7.97%	8.02%	6.95%
Maximum Amount Outstanding at any Month End	\$109,062	\$108,031	\$ 94,185
Average Amount Outstanding During Year	\$ 99,632	\$ 84,418	\$ 82,031
Average Rate During Year	8.58%	7.04%	6.14%

Average amounts set forth above are primarily daily averages.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED) for the fiscal
year ended December 31, 1989

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

COMMISSION FILE NO. 33-25082

NATIONAL COMMUNITY BANKS, INC.

(Exact name of Registrant as specified in its charter)

New Jersey

(State or other jurisdiction of
incorporation or organization)

22-2910527

(I.R.S. Employer Identification No.)

113 West Essex Street

Maywood, New Jersey 07607

(201) 845-1000

(Address and telephone number, including area code, of
Registrant's principal executive office)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$2.00 per share	Not Applicable

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

The aggregate market value of the voting stock held by non-affiliates of the Registrant, as of January 31, 1990 (net of shares held by the officers and directors of the Registrant and net of shares held by the Trust Department of National Community Bank of New Jersey)*, was approximately \$226,649,585.

*The Registrant does not admit by virtue of the foregoing that its officers and directors are "affiliates" and does not admit that it controls the shares of its stock held by the Trust Department of its bank subsidiary.

Shares Outstanding on January 31, 1990

Common Stock, \$2.00 par value — 10,451,860 shares

Documents Incorporated by Reference

Portions of the Company's 1989 Annual Report to Shareholders are incorporated by reference into Parts I, II and IV and portions of the Company's Notice of Annual Meeting and Proxy Statement for the annual meeting of shareholders to be held April 24, 1990 are incorporated by reference into Part III.

This Annual Report and Form 10-K incorporate into a single document all material required by the Securities and Exchange Commission to give our shareholders and other interested parties a timely and comprehensive explanation of the 1989 results. Only those sections of the Annual Report referenced in the following cross reference index are incorporated in the Form 10-K.

Form 10-K Cross Reference Index

Part I		Page
Item 1.	Business	52-55
Item 2.	Properties	55
Item 3.	Legal Proceedings	55
Item 4.	Submission of Matters to a Vote of Security Holders	Not Applicable
Part II		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	35
Item 6.	Selected Financial Data	35
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	36-46
Item 8.	Financial Statements and Supplementary Data	
	Consolidated Statements of Condition - December 31, 1989 and 1988	22
	Consolidated Statements of Income - Years Ended December 31, 1989, 1988, and 1987	23
	Consolidated Statements of Changes in Shareholders' Equity - Years ended December 31, 1989, 1988 and 1987	24
	Consolidated Statements of Cash Flows - Years Ended December 31, 1989, 1988 and 1987	25
	Notes to Consolidated Financial Statements	26-33
	Report of Independent Public Accountants	34
	Selected Quarterly Financial Data	31
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	Not Applicable
Part III		
Item 10.	Directors and Executive Officers of the Registrant	*
Item 11.	Executive Compensation	*
Item 12.	Security Ownership of Certain Beneficial Owners and Management	*
Item 13.	Certain Relationships and Related Transactions	*
Part IV		
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	
	(a)(1) Financial Statements - See Item 8 above.	
	(2) Financial Statement Schedules	
	All schedules to the consolidated financial statements normally required by Form 10-K are omitted since they are either not applicable or the required information is shown in the financial statements or the notes thereto.	
	(3) Exhibits	
	3.1 - Company's Restated Certificate of Incorporation is incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-4 (No. 33-25062) filed with the Commission on December 12, 1988 (the "S-4").	
	3.2 - The Company's By-Laws, as amended.	
	10.1 - The Company's Long-Term Stock Incentive Plan.	
	10.2 - Preservation of Benefits Plan of National Community Bank of New Jersey (the "Bank") is incorporated by reference to Exhibit 10.2 of the S-4.	
	10.3 - The Bank's Annual Incentive Plan is incorporated by reference to Exhibit 10.1 of the S-4.	
	22.1 - Subsidiaries of the Company	
	24.1 - Consent of Arthur Andersen & Co.	
	25.1 - Power of attorney.	
	(b) No reports on Form 8-K were filed by the Company during the fourth quarter of 1989.	

Shareholders may obtain a copy of any Exhibit, Item 14(a)(3), none of which are contained herein, upon payment of a reasonable fee, by writing National Community Banks, Inc., Office of the Secretary, 113 West Essex Street, Maywood, New Jersey 07607.

*The information required by Items 10 through 13 is incorporated by reference to the Company's Notice of Annual Meeting and Proxy Statement for the 1990 annual meeting of shareholders which the Company intends to file with the Securities and Exchange Commission pursuant to Regulation 14A.

BUSINESS

GENERAL

National Community Banks, Inc. (the "Company") is a bank holding company which was incorporated in New Jersey in 1988.

Pursuant to a plan of reorganization which was approved by the Board of Directors and shareholders of National Community Bank of New Jersey (the "Bank") and consummated on February 28, 1989, the Company became the parent company of the Bank (the "Reorganization"). The Bank, in turn, presently is the sole banking subsidiary of the Company.

The Reorganization was accounted for as a pooling of interests. Accordingly, the data presented herein has been restated as if the Reorganization had been in effect for all periods presented.

The principal source of operating funds for the Company is dividends provided by the Bank. The Company's expenses consist primarily of operating expenses. Dividends paid to the Company's shareholders are, in general, obtained from the dividends declared and paid to the Company by the Bank.

THE BANK

The Bank is organized as a national banking association under the laws of the United States. The Bank traces its antecedents to the year 1895 as Rutherford National Bank. In 1955, after the acquisition of assets from Bergen County Bank in 1927, North Arlington Bank in 1953 and First National Bank of Garfield in 1955, Rutherford National Bank adopted the name of National Community Bank in order to reflect its expansion of services outside Rutherford. Its main office is located at 24 Park Avenue, Rutherford, New Jersey.

National Community Bank is a full-service commercial bank offering a complete range of consumer, commercial and trust services. Its 111 branch offices are located in the following 12 New Jersey counties: Atlantic, Bergen, Essex, Hudson, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Sussex and Warren. As of December 31, 1989, the Bank employed approximately 2,200 persons.

Commercial Bank Services

The Bank offers a broad range of lending, depository and related financial services to commercial, industrial, financial and governmental customers. In the lending area, these services include short and medium term loans, commercial bank services, revolving credit arrangements, lines of credit, letters of credit, inventory and accounts receivable financing, personal property lease financing, real estate construction loans and mortgage loans. Deposit products include: demand deposits, savings accounts and time deposits. In addition, the Bank offers cash management, collection, wire transfer, night depository, lock box and data processing services. It also offers correspondent banking services which include check clearing, loan participations, loan servicing and federal funds transactions.

The Bank's International Department, which makes no foreign loans, offers a wide range of services to accommodate its commercial customers. These services include: the issuance of letters of credit, standby letters of credit, foreign currency exchange, future and spot trades, foreign collections and transfers.

The Bank is obligated under standby and commercial letters of credit on behalf of customers. In addition, the Bank has issued lines of credit to customers, generally for periods of up to one year. Borrowings under such lines of credit are usually for the working capital needs of the borrower. For information regarding such obligations, see Note 10 of the Notes to Consolidated Financial Statements.

Consumer Banking

The Bank also offers a broad range of consumer banking services, including checking accounts, savings accounts, NOW accounts, money market accounts, consumer certificates of deposit, secured and unsecured loans, consumer installment loans, mortgage loans, safe deposit services and traveler's checks.

The Bank belongs to the MAC® regional system of shared automated teller machines and the PLUS® national network. The Bank's participation in this system enables its customers to have convenient access to their accounts and allows the Bank to broaden its market area.

The Bank offers various money market services. In its capital market activities, it deals in U.S. Treasury and U.S. Governmental agency securities, certificates of deposit, commercial paper, bankers acceptances and repurchase agreements. The Bank also provides discount brokerage services to its customers through a third party.

Trust Services

A variety of fiduciary services are available through the Bank's Trust Department. These include investment management, advisory services and custodial functions for individuals.

The Trust Department also administers, in a fiduciary capacity pensions and personal trusts and estates. It also acts as corporate trustee, transfer agent, registrar, paying agent and in other corporate agency capacities.

COMPETITION

The Bank faces strong competition in the communities it serves from other commercial banks, savings banks and savings and loan associations, certain of which are substantially larger than the Bank. Mortgage banking firms, credit unions, issuers of commercial paper, money market funds, brokerage houses, consumer finance companies, factors, insurance companies and pension trusts provide additional competition for loans, and for certain financial services.

In recent years the financial services industry has experienced rapid expansion as barriers to competition within the industry have diminished. Within the banking field, banks not only must compete with traditional financial institutions, but also with other business corporations that have begun to deliver competing financial services.

Competition for the Bank is not limited to financial institutions based in New Jersey. A number of large out-of-state and foreign banks, bank holding companies and other financial institutions already have an established market presence in the State. Many of the financial institutions operating in New Jersey engage in local, regional, national and international operations and have more resources than the Bank.

REGULATION AND SUPERVISION

General

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "Act"). It is subject to the registration requirements imposed under the Act by the Board of Governors of the Federal Reserve System ("Federal Reserve Board").

The Bank is a national bank subject to the regulation and supervision of, and regular examination by, the Comptroller of the Currency ("Comptroller") and subject to regulations of the Federal Deposit Insurance Corporation ("FDIC") and the Federal Reserve Board.

Bank holding companies and banks are extensively regulated in many areas of their respective businesses under both federal and state law. Capital requirements, opening of new branch facilities, the making of loans and investments, maintenance of reserves, consumer protection and other matters are the primary business activities subject to extensive regulation. Any change in applicable laws or regulations may have a material effect on the business of the Company and the Bank.

Governmental Regulation

A bank holding company is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Act. The Federal Reserve Board may also make examinations of a holding company and its subsidiaries. The Company will be required to obtain the prior approval of the Federal Reserve Board before it can acquire all or substantially all of the assets of any bank, or acquire ownership or control of any voting shares of such bank. Prior Federal Reserve Board approval will also be required for the Company to merge or consolidate with any other bank holding company. See "Acquisitions—Interstate Banking."

In addition, a bank holding company is generally prohibited from engaging in or acquiring direct or indirect control of voting shares of any company engaged in non-banking activities unless the Federal Reserve Board deems such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Bank, as a subsidiary of a bank holding company, is subject to certain Federal Reserve Act restrictions on its investment and credit transactions with the Company and any other subsidiaries of the Company.

Approval of the Comptroller is required for branching of national banks, purchasing the assets of other banks and for bank mergers in which the continuing bank is a national bank.

Acquisitions—Interstate Banking

The Act precludes the Federal Reserve Board from approving the acquisition by the Company of the voting shares of, or substantially all the assets of, any bank located outside New Jersey unless such acquisition is specifically authorized by the laws of the State in which the bank to be acquired is located. New Jersey banking organizations are authorized to acquire or be acquired by banking organizations in any other state so long as that other state permits New Jersey banking organizations to acquire banking organizations in that state on substantially the same terms and conditions applicable to banking acquisitions solely within that state.

In 1982, Congress enacted legislation that permitted bank holding companies to acquire failed banks and failing thrift institutions on an interstate basis. This legislation was modified and expanded by the Competitive Equality Banking Act of 1987 and then by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA").

At the present time, management of the Company has no intention to engage in interstate transactions.

Capital Guidelines

For information regarding capital requirements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations." Refer to page 46.

FIRREA

Enacted on August 9, 1989, FIRREA restructured the regulation, supervision and deposit insurance of savings associations whose deposits were formerly insured by the Federal Savings and Loan Insurance Corporation ("FSLIC"). FSLIC was replaced by the Savings Association Insurance Fund ("SAIF") administered by the FDIC. A separate fund, the Bank Insurance Fund ("BIF"), which was essentially a continuation of the FDIC's then existing fund, was established for banks. FIRREA mandates an increase in the annual insurance assessment paid by banks from $\frac{1}{16}$ of 1 percent of a bank's assessment base (as defined), effective through December 31, 1989, to .12% for 1990 and .15% thereafter, subject to possible annual increases of up to .075% per year in certain circumstances, with a maximum rate of .325%. This assessment rate is lower than the rate provided for SAIF-insured institutions, which is .208% through December 31, 1990, .23% in 1991 through 1993, .18% in 1994 through 1997, and .15% thereafter, subject to annual increases commencing in 1995 of up to 0.75% per year in certain circumstances with a maximum rate of .325%.

Under FIRREA, bank holding companies may acquire thrift institutions which are not failing or failed. However, the activities of such an acquired thrift would be limited to those permitted to a bank holding company subsidiary and the thrift would generally be required to continue its deposit insurance with the SAIF unless significant exit and entrance fees were paid (currently totalling 1.70% of the insured deposits involved) in connection with a conversion to BIF insurance. FIRREA also provides for "cross-guarantees" by the different banking subsidiaries of a common holding company. Each such banking institution must reimburse the FDIC for any loss to the FDIC arising from the failure of or assistance to such a commonly-controlled banking institution. FIRREA expands the enforcement powers available to federal banking regulators, including providing greater flexibility to impose enforcement action, expanding the persons dealing with a bank who are subject to enforcement action, and increasing the potential civil and criminal penalties.

Dividend Restrictions

There are a number of statutory and regulatory requirements applicable to the payment of dividends by banks and bank holding companies. As a national banking association, the Bank is required by Federal law to obtain the approval of the Comptroller for the payment of dividends if the total of all dividends declared by the Board of Directors of the Bank in any one year exceeds the total of the Bank's net profits (as defined) for that year and the retained net profits (as defined) for the preceding two years, less any required transfers to surplus. The Comptroller has the authority to prohibit national banks from engaging in unsound or unsafe practices. It is possible that the Comptroller could assert that the payment of dividends or other payments may under certain circumstances be construed as unsound or unsafe practices. In addition, there are regulations promulgated by the Comptroller and guidelines issued by the Federal Reserve, including capital restrictions, which could limit the amount of dividends paid by the Bank or Company. See Note 12 of the Notes to Consolidated Financial Statements.

Securities and Exchange Commission

The stock of the Company is registered with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 (the "1934 Act"). As a result of such registration, the Company and its officers, directors and major shareholders are obligated to file certain reports with the SEC. Furthermore, the Company is subject to proxy and tender offer rules promulgated pursuant to the 1934 Act.

Governmental Policies

The earnings of the Bank (and, therefore, of the Company) are affected not only by domestic and foreign economic conditions, but also by the monetary and fiscal policies of the United States and its agencies (particularly the Federal Reserve Board), foreign governments and other official agencies. The Federal Reserve Board can and does implement national monetary policies, such as the curbing of inflation and combatting of recession, by its open market operations in United States Government securities, control of the discount rate applicable to borrowings of its member banks, and the establishment of reserve requirements against member bank deposits and certain liabilities of member bank affiliates (including the Bank). The actions of the Federal Reserve Board influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary and fiscal policies are not predictable.

From time to time various proposals are made in the United States Congress and the New Jersey Legislature and before various bank regulatory authorities which would alter the powers of, and restrictions on, different types of banking organizations and which would restructure part or all of the existing regulatory framework for banks, bank holding companies and other financial institutions. It is impossible to predict whether any of the proposals will be adopted and the impact, if any, of such adoption on the business of the Bank or the Company.

Financial Information About Foreign and Domestic Operations

The Company and the Bank do not conduct any foreign operations.

PROPERTIES

The official address of the Bank is 24 Park Avenue, Rutherford, New Jersey, a property which is owned by the Bank. A full service banking office is also located at this address.

The administrative and principal operational offices of the Bank and the Company are located at 113 West Essex Street, Maywood, New Jersey. The Bank's personnel office is located at 174 Essex Street, Lodi, New Jersey. All of these properties are owned by the Bank.

The Bank occupies 124 additional properties, of which 76 are owned (including 11 on leased land) and 48 are leased. The owned properties are free and clear of all mortgages. The leased properties (with 11 land leases) required \$4,549,000 in rental payments in 1989.

LEGAL PROCEEDINGS

There are no significant pending legal proceedings involving the Company or the Bank other than those arising out of routine operations. Management does not anticipate that the ultimate liability, if any, arising out of such litigation will have a material effect on the financial condition of the Company and the Bank on a consolidated basis.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 16th day of March 1990.

National Community Banks, Inc.

ROBERT M. KOSSICK

Robert M. Kossick
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on the 16th day of March, 1990, by the following persons on behalf of the registrant and in the capacities indicated.

ANTHONY J. FRANCHINA

Anthony J. Franchina
Executive Vice President and Treasurer
Chief Financial and Accounting Officer

The Directors of National Community Banks, Inc. listed below have duly executed powers of attorney empowering Anthony J. Franchina to sign this document on their behalf.

Katharine L. Auchincloss
Henry P. Becton
George S. Callas
Fairleigh S. Dickinson, Jr.
Alvan B. Fehn
Raymond V. Gilmartin
Frank W. Hamilton, Jr.
Theodore F. Holbert
Kenneth J. Holck
Robert M. Kossick (Chief Executive Officer)
John Jay Mangini
Joseph L. Muscarelle, Jr.
James Peters
Horace C. Ramsperger
Lambert A. Rose
Paul Schmidt
Emil W. Solimine
John J. Sullivan

ANTHONY J. FRANCHINA

Anthony J. Franchina
Attorney-in-Fact
March 16, 1990

Branch Listing

**SERVING TWELVE COUNTIES
THROUGHOUT NEW JERSEY**

ATLANTIC COUNTY

Atlantic City
Atlantio & Arkansas Avenues
(609) 345-8272

Brigantine
4115 Bayshore Avenue
(609) 266-2100

Linwood *
Maple Avenue & New Road
(609) 927-9191

Mays Landing
One Route 50
(609) 625-9152

Northfield
Mainland Plaza
501 Tilton Road
(609) 645-3200

Somers Point
New Road & Rhode Island Avenue
(609) 653-8200

BERGEN COUNTY

Carlstadt
321 Hackensack Street
(201) 845-1271

650 Washington Avenue
(201) 845-1297

East Rutherford
Hackensack Street & Paterson
Plank Road
(201) 845-1275

Edgewater
725 River Road
(201) 845-1835

Elmwood Park
Market Street & Van Riper
Avenue
(201) 845-1382

Englewood *
50 Grand Avenue
(201) 845-1910

Fair Lawn *
Fair Lawn Avenue & River Road
(201) 845-1135

Broadway & 27th Street
(201) 845-1232

Fair Lawn Ave. at R.R.(Radburn)
(201) 845-1436

Saddle River Road & Prospect
Avenue
(201) 845-1237

Garfield
136 Passaic Street
(201) 845-1145

Hackensack
Main & Atlantic Streets
(201) 845-1612

505 Main Street
(201) 845-1577

Lodi
Essex Street Office
370 Essex Street
(201) 845-1191

Lyndhurst
Ridge Road & Valley Brook
Avenue
(201) 845 1321

Stuyvesant & Park Avenues
(201) 845-1372

51 Polito Avenue
(201) 845-1178

Midland Park
129 Godwin Avenue
(201) 845-1513

North Arlington
23 Ridge Road
(201) 845-1120

Ridge Road & Bergen Avenue
(201) 845-1474

North Hackensack
505 Main Street
(201) 845-1576

Norwood
588 Broadway
(201) 845-1867

Oakland
345 Ramapo Valley Road
(201) 845-1519

*** Regional Headquarters**

Oradell
296 Kinderkamaack Road
(201) 845-1953

Ridgefield
Broad Avenue at Traffic Circle
(201) 845-1110

504 Bergen Boulevard
(201) 845-1217

Ridgewood *
25 West Ridgewood Avenue
(201) 845-1360

67 Godwin Avenue
(201) 845-1560

Rutherford *
24 Park Avenue
(201) 845-1025

19 Ames Avenue
(201) 845-1025

Union Avenue & Wells Place
(201) 845-1423

Saddle Brook
289 Market Street
(201) 845-8655

South Hackensack
600 Huyler Street
(201) 845-1870

Teaneck
170 The Plaza
(201) 845-1055

205 Cedar Lane
(201) 845-1184

Wallington
Main & Halstead Avenue
(201) 845-1171

Paterson & Mt. Pleasant Avenues
(201) 845-1477

ESSEX COUNTY

Fairfield
387 Passaic Avenue
(201) 882-9604

Millburn
281 Millburn Avenue
(201) 376-8717

Roseland
28 Eisenhower Parkway
(201) 403-0157

Verona
30 Pompton Avenue
(201) 857-8833

West Caldwell
555 Passaic Avenue
(201) 227-2765

HUDSON COUNTY

Jersey City
2 Journal Square
(201) 659-6112

Kearny
11 Kearny Avenue
(201) 991-6663

242 Kearny Avenue
(201) 997-1786

Secaucus
1 Harmon Plaza
(201) 845-1680

333 Meadowlands Parkway
(201) 845-1728

450 Plaza Drive
(201) 845-1482

700 Plaza Drive
(201) 845-1665

Mall at Mill Creek, Rte. 3
(201) 845-1935

Union City
Kennedy Center
3195 Kennedy Boulevard
(201) 845-1905

Weehawken
1200 Harbor Blvd.
(201) 845-1878

MERCER COUNTY

Ewing
1660 N. Olden Avenue
(609) 530-9653

Hamilton
411 Route 33
(609) 890-7447

* Regional Headquarters

Princeton
3535 Route 1
(609) 734-9201

Trenton *
226 S. Broad Street
(609) 392-3300

MIDDLESEX COUNTY

Edison *
Durham Center
(201) 287-4111

Raritan Plaza I
(201) 225-7926

Metuchen
475 Main Street
(201) 906-3535

New Brunswick
387 George Street
(201) 249-9771

Old Bridge
Browntown Shopping Center
Route 516
(201) 679-1300

Plainsboro
(Princeton)
Forrestal Village
Gatehouse
(609) 987-8809

Woodbridge
481 Blair Road
(201) 815-9780

MONMOUTH COUNTY

Bradley Beach
500 Main Street
(201) 774-5300

Freehold
61 W. Main Street
(201) 577-0800

Long Branch
112 Brighton Avenue
(201) 571-1800

Shrewsbury
1150 Broad Street
(201) 542-8980

Spring Lake
Third Avenue & Washington
Avenue
(201) 449-0888

Wall Township
Allaire Airport
(201) 938-9090

Route 35 & Lakewood Road *
(201) 528-9100

Route 138 & New Bedford Road
(201) 681-0113

MORRIS COUNTY

Boonton
100 Monroe Street
(201) 335-6220

Dover
1E. Clinton Street
(201) 366-2000

East Hanover
Ridgedale & Garfield Avenues
(201) 386-0100

Florham Park
77 Hanover Road
(201) 966-6131

Jefferson Township
Lakeside Shopping Center
(201) 663-0010

Mount Freedom
Sussex Turnpike & Millbrook
Avenue
(201) 895-3666

Parsippany
1719A Route 10
(201) 285-1840

Randolph
Route 10 at Dover Chester Road
(201) 366-3510

Riverdale
20 Hamburg Turnpike
(201) 839-2900

Rockaway Township
18 Green Pond Road
(201) 625-4646

*** Regional Headquarters**

Roxbury
1250 Route 46
(201) 927-5860

Stirling/Passaic
1300 Valley Road
(201) 647-5000

Victory Gardens
308 S. Salem Street
(201) 366-7423

Wharton
20 N. Main Street
(201) 366-6900

OCEAN COUNTY

Lakewood
75 E. Kennedy Boulevard
(201) 370-9020

Toms River
24 Main Street
(201) 349-8690

PASSAIC COUNTY

Clifton
963 Van Houten Avenue
(201) 365-4088

Haledon
438 Haledon Avenue
(201) 956-1946

Pompton Lakes
413 Wanaque Avenue
(201) 845-1880

Totowa
999 Riverview Drive
(201) 845-1947

SUSSEX COUNTY

Andover Township
241 Newton-Sparta Road
(201) 383-3434

Franklin
300 Route 23
(201) 827-9181

Hampton Township *
120 Hampton House Road
(201) 383-6434

Montague
Tri-State Shopping Center
(201) 293-3438

Sparta
Theatre Shopping Center
(201) 729-9101

Sussex
59 Main Street
(201) 875-5121

Vernon
Routes 94 & 515
(201) 764-4077

Wantage Township
Route 565 & Route 23
(201) 875-5121

WARREN COUNTY

Hackettstown
124 Maple Avenue
(201) 852-2770

*** Regional Headquarters**

Corporate Information

Headquarters

National Community Banks, Inc.
113 West Essex Street
Maywood, New Jersey 07607
201-845-1000

Dividend Reinvestment and Stock Purchase Plan

For the convenience of its shareholders, National Community Banks, Inc. offers a Dividend Reinvestment and Stock Purchase Plan. Through the plan, shareholders may have their quarterly dividends automatically reinvested in additional common shares without brokerage fees, commissions or service charges. Additionally, both current shareholders and non-shareholders may participate in a stock purchase plan either through periodic payments or automatic charge to their National Community Bank account.

Shareholders may join the plan any time and may also withdraw at their discretion. If you are not a participant and would like to receive a prospectus which fully describes the plan, visit your local branch or write to: Anthony J. Franchina, Executive Vice President and Treasurer,
National Community Banks, Inc. 113 West Essex St.,
Maywood, New Jersey 07607.

Corporate Contacts

Financial

Anthony J. Franchina
Executive Vice President and Treasurer
201-845-1250

News Media

Arthur C. Ramirez
First Senior Vice President
201-845-1340



Stock Exchange Listing
NASDAQ Over-the-Counter
National Market System
STOCK SYMBOL: NCBR

Transfer Agent and Registrar

The Chase Manhattan
Bank, N.A.
1 New York Plaza
New York, N.Y. 10031

Market Makers

The following companies are Market Makers: Bear Stearns & Co.; Dean Witter Reynolds, Inc.; Howard, Weil, La Bousse; Keefe, Bruyette & Woods, Inc.; Merrill Lynch, Pierce, Fenner; Ryan Beck & Co., Inc.; Shearson Lehman Hutton Inc..

Annual Meeting

The Annual Meeting of Shareholders of National Community Banks, Inc. will be held on Tuesday, April 24, 1990, at 2:30 pm in the Sheraton Meadowlands Hotel, Sheraton Plaza Drive, Two Meadowlands Plaza, East Rutherford, New Jersey. Shareholders are cordially invited to attend.

“

We are
committed fully
to the state of
New Jersey and its
dynamic people.

We believe
in old-fashioned,
community banking
and long-lasting
relationships
between the Bank
and its friends.

”